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Politics this week



America, Britain and France attacked **Libyan** airfields, military centres and tanks with aircraft and missiles after the UN Security Council passed a resolution providing for a no-fly zone. Rebel troops fighting to topple Colonel Muammar Qaddafi broke out of their enclave around Benghazi but struggled to advance towards Tripoli, the capital. See article

Yemen's president, Ali Abdullah Saleh, promised to step down by the end of the year after snipers killed at least 50 demonstrators in Sana'a, the capital. After several of his closest military and tribal allies turned against him, his days looked numbered. See article

The **Syrian** government responded to protests in the southern city of Deraa by shooting dead at least a dozen people, some of whom were outside a mosque. See article

In **Bahrain** the death toll from a crackdown by the kingdom's security forces, backed by 1,500 troops from Saudi Arabia and other Gulf-state neighbours, rose to 18. Protesters continued to demand reform.

Three-quarters of **Egyptian** voters endorsed a batch of constitutional amendments paving the way for a general election, perhaps in June, and a presidential one in August or September. See article

One person was killed and 30 injured by a bomb left at a bus stop in **Jerusalem**, the first such attack in the city for more than six years. This came after Israeli jets launched air raids in the **Gaza Strip** in retaliation for the heaviest barrage of mortars and rockets fired into Israel by Palestinian militants for two years. See article

Thousands of refugees from **Cote d'Ivoire** poured into Liberia as fighting resumed between rival groups claiming victory in last year's presidential election.

Officials said around 70 people had been killed in clashes between the army of **South Sudan**, which is due to gain independence in July, and fighters loyal to a southern rebel leader in the borderland with Sudan. The southern government accused Omar al-Bashir, the Sudanese president, of trying to destabilise the emerging state.

Days of sorrow



Aid and power supplies remained patchy in the northern region of **Japan** stricken by an earthquake and tsunami. Workers struggled to contain a burning reactor at the Fukushima nuclear-power plant as the site emitted small but worrying amounts of radiation. Increased concentrations of radioactive material were found in milk and vegetables in the area. **Tokyo's** governor recommended that babies be kept away from the city's tap water as it contained higher levels of radioactive iodine. See article

A provisional estimate put the cost of the **economic damage** from the earthquake at $235 billion, which would make it the most expensive natural disaster in history. See article

Hamid Karzai announced a plan to make **Afghanistan's** army and police assume responsibility for the country's security, starting in July. Seven areas controlled by the American-led international force are to be transferred to Afghan command, including Lashkar Gah in Helmand, until recently a hotbed of Taliban activity. See article

Meanwhile, one of five American soldiers accused of killing **Afghan civilians** for sport pleaded guilty and was given a 24-year prison sentence. *Der Spiegel* magazine published damning photographs taken by the soldiers posing with the corpse of one victim.

India's opposition claimed that Manmohan Singh had misled parliament, accusing the prime minister of having falsely denied that he knew about a cash-for-votes scheme exposed by WikiLeaks. It has been a season of scandals in India, but no one had yet accused Mr Singh of dishonesty. See article

Tibetans in exile cast votes for a new political leader to replace the Dalai Lama, who wants to retire. **Nepal** prevented 20,000 Tibetans who live there from voting, presumably bowing to Chinese pressure.

Facing the inevitable

Jose Socrates resigned as **Portugal's** prime minister after his government lost a parliamentary vote on the latest round of austerity measures. Speculation rose that an EU summit in Brussels would postpone the approval of a new reserve fund for the euro. See article

There was a rare outbreak of disharmony in **Russia's** ruling tandem. Vladimir Putin, the prime minister, compared the UN Security Council resolution authorising military action against Libya to a "medieval crusade". Dmitry Medvedev, the president, said Mr Putin's language was "unacceptable" and risked stoking a "clash of civilisations". Mr Putin downplayed the split.

France's far-right National Front did well in the first round of local elections, reaching the second round in a fifth of the total districts and almost displacing President Nicolas Sarkozy's UMP party, which came second by share of the vote. The Socialists came first, with a quarter of the votes.

Preparing for a ballot

Canada's three opposition parties said they would bring down the Conservative minority government at the first opportunity and force an election, either by rejecting its budget or through a no-confidence vote. Polls suggest the composition of Parliament after an election would be unlikely to change much. See article

Haiti held a run-off in its presidential election. The vote went well by comparison with the chaotic first round. Both candidates, Michel Martelly and Mirlande Manigat, said they were ahead in the count. See article



Barack Obama made his first trip to South America, visiting **Brazil** and **Chile** as well as **El Salvador**. He advocated more trade between the region and the United States, and promised new money to fight drug- trafficking.

The United States' ambassador to **Mexico** resigned, after WikiLeaks published cables in which he criticised the government's approach to fighting organised crime and the potential presidential candidates of the ruling party.

T-Paw's standing start

Tim Pawlenty became the first big Republican name to enter America's presidential race when he took the official step of setting up an exploratory committee. A former governor of Minnesota, Mr Pawlenty was a favourite to become John McCain's running-mate in 2008 before Mr McCain went with Sarah Palin instead. See article

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Index | The world this week

Business this week

AT&T announced that it had agreed to buy **T-MobileUSA** from Deutsche Telekom in a $39 billion deal. If approved by regulators the acquisition will create a behemoth in America's wireless telecoms market, far larger than either Verizon Wireless or Sprint Nextel. The inevitable concerns were raised about the pernicious effects that such a dominant player could have on competition and prices. Sprint Nextel said it would oppose the deal. See article

Britain's telecoms regulator laid out the conditions for an auction of spectrum for a **fourth-generation** mobile service. Ofcom said it would impose limits on the minimum and maximum amounts of mobile-phone frequencies in the bidding, set to take place early next year, in order to retain at least four big wireless operators in Britain and ensure healthy competition among them. See article

Google claimed that China was again interfering with its service in the country. This time the problem centres on **Gmail**, with numerous frustrations reported by users. China has stepped up its censorship of the internet in recent weeks, after the uprisings in the Middle East and an anonymous campaign calling for a Chinese "jasmine revolution". See article

Back to the drawing board

Google's plan to put millions more books online was dealt a blow when a federal judge threw out a 2008 agreement on copyright reached with the associations that represent authors and publishers. The judge ruled that the settlement circumvented copyright law and would "further entrench" Google's dominance in internet searches. He suggested that the parties should revise their deal.

Amazon opened an online store selling apps for Google's Android smartphone operating system. However, Apple claims that Amazon's "Appstore" infringes its own trademark "App Store", and has filed a lawsuit.



Led by the Bank of Japan, the central banks of the G7 countries undertook their first co-ordinated intervention in currency markets for more than a decade to stabilise a soaring **yen**. The yen had reached a record high against the dollar amid speculation that Japanese companies would tap their huge foreign assets to help pay for reconstruction and insurance costs after the recent earthquake and tsunami.

Steady as she goes

George Osborne unveiled his **budget** to the House of Commons. Stung by criticism that the government lacked a strategy for boosting the economy, the British chancellor described his budget as pro-growth and made a further reduction to

corporation tax. Mr Osborne also cancelled a planned rise in fuel duty and cut petrol tax by a penny, all paid for by a pound2 billion ($3.4 billion) levy on oil companies. See article

Speculation mounted that the European Central Bank would raise **interest rates** in April for the first time since 2008 when Jean-Claude Trichet, the ECB's president, said he had "nothing to add" to his policy statement earlier this month, which warned that "strong vigilance" was required to fight inflation in the euro zone. Mario Draghi, the governor of Italy's central bank and a possible successor to Mr Trichet, whose term ends in October, said the ECB was "prepared to act in a firm and timely manner" on inflation.

Meanwhile, Britain's **inflation** rate rose again, to 4.4% in February, to reach its highest level since October 2008.

Germany's highest civil court ruled that **Deutsche Bank** had failed to advise a client about the true risk of a complex swap transaction in 2005, and ordered it to pay euro541,000 ($769,000) in damages. The swap involved a bet on the difference between two-year and ten-year interest rates. As well as finding that Deutsche Bank did not adequately explain the transaction, the court said there was a conflict of interest as it was both advising and, in effect, betting against its client. The judgment may affect 24 other cases against Deutsche Bank. See article

Bank of America revealed that the Federal Reserve had blocked its plan for a "modest" increase in its dividend to shareholders in the second half of this year. The Fed's objections came after another round of stress tests on banks, the results of which have not been divulged.

The club of Rome

Italy's government considered measures to block a foreign takeover of **Parmalat**, a milk and food company deemed to be of "strategic" value to Italy, when **Lactalis**, a French dairy group which includes the Seriously Strong and President cheese brands in its portfolio, revealed it had amassed a 29% stake. Lactalis's interest in Parmalat, which was restructured after a spectacular bankruptcy in 2003, comes soon after the Italian Bulgari family sold its celebrated jewellery empire to France's LVMH. See article

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Index | The world this week

Daily Chart

Mar 24th 2011 | From *The Economist* print edition



Index | Leaders

The challenge of Libya

Where will it end?



THE spectacle of American, British and French missiles pulverising an Arab and Muslim country at the dead of night arouses a sense of foreboding. Such ventures have too often begun with good intentions and naive overconfidence, as oil-rich despots see their armour crumple and burn beneath superior Western technology. Within weeks, though, vainglory turns into a costly and bloody quagmire.

Yet nobody could accuse Barack Obama and his allies, chiefly Britain's David Cameron and France's Nicolas Sarkozy, of overconfidence in attacking Libya on March 19th. It is hard to think of a military enterprise that has been conceived in so much doubt and anxiety. What if Muammar Qaddafi sits out the raids in his bunker? What if Libya is partitioned? What if, chastened by news footage of dead women and children in a Tripoli market, the coalition starts to fall apart? What if many

of the eastern Libyans whom the outside world is protecting turn out to sympathise with al-Qaeda? What if they go on to behave as murderously as the colonel and his paid killers?

The answers to those questions start with the case for intervening in Libya. Western sceptics complain that they have "no dog in this fight". Libyans, they say, should be left to submit to the colonel or kill him off, as best they can.

That view is too parochial. Colonel Qaddafi is the Arab world's most violent despot. In one day in 1996 his men killed 1,270 prisoners in a Tripoli jail. He has backed terrorism and assassinated dissidents. Western leaders were right to have given him a chance to turn a new leaf after 2003, when he renounced his nuclear programme. But when peaceful protesters marched for change a few weeks ago he shot them-seemingly with relish. Whatever the course of the coming weeks and months, do not forget that the colonel and his sons had vowed to slaughter the people of Tobruk and Benghazi, house by house. In the narrowest of senses, a mission that many said was pointless and too late has already chalked up one success.

Moreover, what happens in Libya, for good or ill, will affect its more hopeful neighbours, Egypt and Tunisia. Farther afield, even Syria is beginning to stir and its government may be tempted to be as ruthless as Libya's (see article). If violence prevails in Libya, the momentum for peaceful change across the Middle East may drain away, as both autocrats and protesters elsewhere in the Arab world conclude that violence is after all an essential tool for getting their way.

Be practical, as well as principled

The sceptics' second retort is that the West is guilty of hypocrisy. As it inveighs against Colonel Qaddafi, its Saudi allies have helped snuff out the flame of democracy in the Gulf state of Bahrain. And surely the West should stop propping up the Yemeni dictator, Ali Abdullah Saleh, whose forces have just shot dead dozens of protesters?

Here practicality-some would say realpolitik-comes into play, sometimes frustratingly. The violence in Bahrain is on a vastly smaller scale than that in Libya; and the West is locked into a military alliance with both Bahrain-home to America's Fifth Fleet-and its royal family's protector, Saudi Arabia. To take on Bahrain's rulers would be to endanger that alliance-and they have run a more open society than Libya anyway. As for Yemen, it is an ungovernable snakepit, home to rival tribes, secessionists and a local branch of al-Qaeda. Nobody in his right mind would intervene there. Neither Bahrain or Yemen is susceptible to an air campaign as Libya is, with its long stretches of desert that expose Colonel Qaddafi's advancing tanks. You intervene when you can, not to be consistent.

The sceptics' third complaint is that the West has entered this campaign without defining the mission. That is both unfair and true. It is unfair because dictators do not work to a diplomatic timetable. Colonel Qaddafi's rapid advance to Benghazi meant that the outside world had to intervene within days or not at all. But it is true that there has been some indecisiveness-principally from Mr Obama. That helped forge a broader coalition, but the West now has its work cut out. It must urgently decide who is in charge, clarify the powers granted by the Security Council resolution enabling Libya's civilians to be protected by "all necessary means" and, most important of all, determine what the campaign's aims should be.

A fight that needs a general

America wants to cede overall control as soon as it has carried out the bulk of the initial bombing. Although to some extent Mr Obama is again shrinking from leadership, it probably makes sense. The mission will look less American: it will force the Europeans to be responsible for a cause they championed; and in NATO there is a body that can take operational control.

The difficult decision is whether Colonel Qaddafi's removal, dead or alive, should be an explicit aim of the enforcers. The UN resolution makes no mention of such a thing, though many Western and Arab leaders have said they want the colonel to go. As commander-in-chief of security forces that have already killed hundreds of civilians since peaceful protests started a month ago, he is arguably a legitimate target. But it would be far better if his own people dealt with him, handed him over to the International Criminal Court in The Hague, or chased him into exile, rather than let him be singled out by his Western enemies for elimination.

Leaving the Libyans to do that unaided is admittedly a risk, but the odds are on the rebels' side. Once Colonel Qaddafi cannot pound cities such as Benghazi with impunity, opposition across the country will grow again. Isolated and economically strangled, the colonel and his regime would be lucky to survive indefinitely. Even if Libya were temporarily

partitioned, the West could keep up the no-fly zone with minimal effort. Gradually, the noose would tighten around the colonel, especially as the anti-Qaddafi east holds most of Libya's oil.

Libya is not Iraq. The West has learned through bitter experience to avoid the grievous mistakes it made from the outset of that venture. For one thing, the current mission is indisputably legal. For another, it has, at least for now, the backing of Libya's own people and-even allowing for some wobbles from Turkey and the Arab League-of most Arab and Muslim countries. Libya's population is a quarter the size of Iraq's, and the country should be easier to control: almost all its people, a more homogeneous lot albeit with sharp tribal loyalties, live along the Mediterranean coastal strip. If Colonel Qaddafi's state crumbles, the West should not seek to disband his army or the upper echelons of his administration, as it foolishly did in Iraq. The opposition's interim national council contains secular liberals, Islamists, Muslim Brothers, tribal figures and recent defectors from the camp of Colonel Qaddafi. The West should recognise the council as a transitional government, provided that it promises to hold multiparty elections. Above all, there must be no military occupation by outsiders. It is tempting to put time-limits on such a venture, but that would be futile.

Success in Libya is not guaranteed-how could it be? It is a violent country that may well succumb to more violence, and will not become a democracy any time soon. But its people deserve to be spared the dictator's gun and be given a chance of a better future.

Index | Leaders

Japan's disaster

A crisis of leadership, too

The many-headed catastrophe points to deeper-seated problems in governing Japan



SINCE the lives of hundreds of thousands of ordinary Japanese were turned upside down by earthquake, tsunami, fire and looming nuclear threat, people around the globe have watched, amazed, at the survivors' composure-"stoicism" is the word they most often reach for. There have been few complaints, just civic-minded initiative. All along the coast, the urgent talk is not just about survival in the face of shortages of food, water and fuel. Stricken communities are desperate to start rebuilding their towns (see article).

Stoicism is an admirable response to what fate deals you. It also serves as a coping mechanism in the face of incomprehension. And the Japanese no longer just find it hard to understand how nature could deal such a blow; increasingly, they want to know why the government of a rich and orderly land should be taking so long to tame an

overheating nuclear plant and get help to communities ravaged by the tsunami. A lack of water, food and warmth are a fresh and acute source of suffering. Despite the scale of the humanitarian disaster, some of the suffering is avoidable. The system is letting citizens down.

This criticism may seem harsh. For a start, Naoto Kan, the prime minister, has maintained relative calm despite the menacing situation at Fukushima Dai-ichi, the crippled nuclear plant. His government has also been far more transparent than its predecessors. The Bank of Japan acted promptly, providing liquidity to prevent a natural disaster from becoming a financial one.

Favourable comparisons have rightly been made with the bumbling response by an earlier government to the 1995 earthquake in Kobe, which killed 6,400. Then, Japan's government was slower than South Korea's to set up an emergency relief operation. *Yakuza*, the Japanese mafia, were the first to set up soup kitchens for the victims.

But that is setting the bar very low indeed. After all, the Kobe fiasco hastened the end of the Liberal Democratic Party's post-war supremacy and the rise of Mr Kan's Democratic Party of Japan (DPJ). Kobe showed that the country was run by incompetents. The shock led to soul-searching by a once-confident Japan which, with its economy broken, seemed adrift. Yet all was not lost in the "lost decade". Out of Kobe grew new civic-minded energies. Mr Kan himself has a background in civic activism. In 2009 the DPJ promised a new, more accountable kind of politics. A less deferential electorate approved.

Yet, this month's disasters underscore how much more the system still needs to change-along with the politicians guiding it. For one, the fiasco at Fukushima Dai-ichi has revealed, again, the cosy ties between the nuclear industry and government. Together, they have stifled debate, covered up bungles and made assumptions about risks that were too optimistic. The crisis management at TEPCO, the plant's owner, has laid bare an astounding lack of leadership. "What the hell's going on?" Mr Kan demanded at one point.

The same might be asked of the operation to get help to the tsunami victims. For all that Mr Kan has attempted to be seen at the front, in Tokyo the sense of a looming humanitarian crisis in the north has been slow to sink in. That is partly because nuclear worries have absorbed much of the government's attention. Few politicians in a centralised system have bothered to travel north themselves. The media, taking their cue from the Tokyo establishment, have not thought properly to report the unfolding struggle for food and fuel.

Yet businessmen and victims say supplies are being held up as bureaucracies fall back on tired old rules and straitjacket procedures. Lorries full of supplies have been unable to get petrol on the empty expressway north, reserved for "emergency" vehicles. While this severe shortage of fuel spread through northern Japan, oil companies were sitting on huge supplies which by law they had to keep in reserve. If ever an occasion for their use was justified, it was this catastrophe. Yet the government took ten days to beg for (not order) their release. From the start, Mr Kan should have declared a state of emergency. Even now, clear lines of authority for handling the many-headed crisis have not been properly established.

Who the hell's in charge?

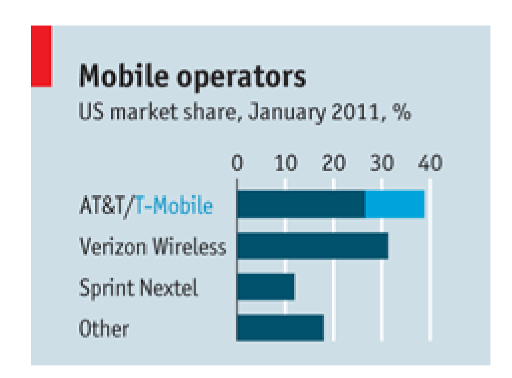
Japan has gone without effective leadership for so long, with an endless procession of faceless prime ministers and their cabinets, that it has made political dysfunction look almost like well-practised art. But this crisis has shone a pitiless light on that failure. Mr Kan, who has promised political change, now needs to bring it about. Japan's people can help, adopting a different attitude to their government. Stoicism-however good for coping with adversity-is bad for bringing on change. Time for the Japanese to unleash some righteous anger on a system that has let them down.

Index | Leaders

America's mobile-phone merger

Not so fast, Ma Bell

AT&T's takeover of T-Mobile USA would damage mobile-phone choice. It should be stopped



BEWARE of habitual monopolists bearing gifts-especially if they operate in shamefully uncompetitive markets. AT&T's proposed $39 billion takeover of T-Mobile USA would create a dominant mobile-phone operator, with a 39% market share in America, and a near-duopoly with Verizon, the current market leader: together their combined share would be 70%. It is a mark of the mess that the United States has made of telecoms not just that such a deal is being considered, but also that a duopoly might actually bring genuine short-term benefits. All the same, it would be far better if the Federal Communications Commission (FCC) and the Department of Justice blocked the T-Mobile merger-and tried to reform the market instead.

The bait for Barack Obama is that the deal could speed up his commitment to make broadband available to more Americans. AT&T says the acquisition will let it expand its fourth-generation (4G) technology-which will provide faster data connections on mobile devices-to a further 46.5m Americans, including many in rural areas who cannot get fixed-line broadband. This is much the same argument that AT&T's grandmother, Ma Bell, made a century ago when it lobbied successfully to be allowed to swallow up lots of other telephone operators and become a monopoly, on the ground that this was the best way to ensure decent coverage, especially in a huge country with a thinly spread population. In the 1970s the government decided that technological gains had undermined such "natural monopoly" arguments: AT&T's local phone services were subsequently hived off, and it was forced to accept competition for long-distance services.

Why reverse history? AT&T argues that by making better use of the two firms' combined infrastructure it could improve the quality of connections. It says the merger, by making it a stronger rival to Verizon, would improve the industry's competitiveness. Consumers everywhere would have a choice between two strong national companies.

This new-found zeal for serving consumers needs to be taken with a pinch of salt: AT&T now gets the worst customer-satisfaction ratings among the main mobile operators. The deeper question is whether two is enough, especially in a business that is evolving as fast, and becoming as important to people's lives, as mobile communications. Canada-also vast and sparsely populated-concluded that lack of competition had contributed to its having some of the rich world's most expensive call rates, and has been trying for three years to promote new entrants. The FCC's British counterpart wants to manage its 4G auction to guarantee consumers have at least four operators with nationwide coverage.

AT&T points out that consumers in many American metropolises already have a choice of five or more operators; and it is prepared to give up market share in some localities where the merger would make it dominant (see article). But many consumers want a mobile operator with good national coverage. That is why AT&T and Verizon each spend so heavily on advertisements claiming they are the best for this.

The president's call

The suspicion is that Mr Obama, desperate both to build some broken fences with big business and to make progress on connecting every American home to the internet, will give in. In fact he should push the FCC to promote more competition-by, for instance, allowing other firms to buy bulk wireless capacity from AT&T and resell it, by freeing up underused spectrum and by making local phone and cable firms share their wires. A duopoly would in the end reduce choice for American consumers, and be hard to reverse. Best to block it.

Index | Leaders

The global economy

Another year of living dangerously

Turmoil in the Middle East and disaster in Japan arouse economic angst. Central banks must not make it worse



THIS was supposed to be a stress-free year for the global economy. By January the financial crisis had faded and Europe's sovereign-debt crisis seemed less acute. America's economy was resurgent. Investors piled into equities and sold some of the government bonds they'd bought for troubled times. If there was a worry, it was that emerging economies would grow too quickly, inflating commodity prices.

The year without crisis is not to be. First, Arabian upheaval put oil markets on edge. Then earthquake, tsunami and a nuclear accident clobbered the world's third-largest economy. How much of a setback to growth do these twin crises represent? And how should economic policymakers react to them?

Japan's share of world output has been shrinking for decades, but at 9% it remains large enough for the hit to the country's growth to subtract noticeably from global output. Then there are the ripple effects on the rest of the world. Japan is a large-in some cases the sole-supplier of intermediate goods to the world's electronics and automotive industries, from the hardened glass on Apple's iPad to gearboxes in Volkswagens. Many makers of such parts have had to slow or halt shipments because of damaged roads, power cuts or the loss of components from their own suppliers. The effects have spread well beyond Japan, causing shutdowns from South Korea to Spain. Still, the history of such disasters is that much of that lost production is eventually recovered and reconstruction delivers a fillip to subsequent growth.

Pinpointing the impact of Arab political turmoil is complicated by the fact that oil prices were already rising thanks to a brighter global economic outlook. Nonetheless, a good portion of this year's 25% increase seems due to worries over supplies. A rule of thumb holds that a 10% increase in the price of oil trims 0.2 percentage points from global growth. At the start of the year, the world looked likely to grow by 4-4.5%. A crude estimate is that the two crises will subtract between a quarter and half a percentage point from that.

That may not capture the full effect. Crises by their nature generate clouds of uncertainty (see article). Businesses postpone capital spending and hiring until the clouds clear. Investors seek the safety of bonds and lose their taste for equities.

Economic policymakers can't make peace between Arab rulers and their people or stabilise Japan's nuclear reactors, but they can minimise the collateral damage. The greatest burden is on the Bank of Japan. Its efforts to cure deflation over the past 15 years have too often been timid. That could not be said of its rapid response to the tsunami. It poured cash into the banking system in a pre-emptive strike against panic hoarding. And it expanded its purchases of government and corporate debt and equities. Still more "quantitative easing" can keep bond yields from rising as the government borrows for reconstruction, and help the fight against deflation.

What should the rest of the world do? In a show of sympathy the G7 joined the Bank of Japan in selling the yen after it spiked dramatically. Such actions should be limited, however. Japan is too dependent on exports and its priority should be stimulating domestic demand and ending deflation, not cheapening the yen. A better way for outsiders to help is to ensure that concerns over radiation in Japanese products do not become an excuse for protectionism.

Avoidable aftershocks

Other central banks face a more complicated task. Even as higher oil prices and hobbled Japanese production reduce growth they add to mounting inflation risks (Britain is now fretting over inflation of 4.4%). But most rich-world economies have ample economic slack, and in several countries fiscal tightening will tug at recovery. Britain's coalition government has reaffirmed its commitment to austerity with this week's budget (see article), and America has begun to cut spending. Both the Bank of England and the Federal Reserve should resist the temptation to tighten soon.

The European Central Bank seems intent on raising interest rates next month. That would be a mistake. In the euro zone underlying inflation and wage growth are both subdued and inflation expectations are under control. By raising rates the ECB would strengthen the euro and frustrate the efforts of countries like Greece, Ireland and-the next in line for bailing out-Portugal to grow their way out of their debts.

There is only so much economic policymakers can do about crises that spring from war or nature. In this case, the priority should be not making matters worse.

Index | Leaders

The budget

Green shoots

George Osborne's second budget was quiet but creditable



SOME people think football is a matter of life and death; on the contrary, Bill Shankly, a legendary coach, once observed, it's more important than that. Some people billed George Osborne's budget on March 23rd as a matter of life and death for the government (see article). It wasn't: the coalition's big decisions-and big gamble-were taken last year, when the chancellor of the exchequer set out his plan to eliminate Britain's structural deficit during this parliament. This budget merely restated that commitment. But it also groped towards an answer to an even more important question. As Mr Osborne put it, how can Britain "earn its way in the modern world"? His response, like his plan for the deficit, is broadly right.

Britain's recovery has proved more fragile than Mr Osborne hoped last June, when he announced the fiercest public-spending squeeze in living memory, plus some tax rises to go with the ones bequeathed by Labour. The economy contracted by 0.6% in the last quarter of 2010 and growth in 2011 is projected to be only 1.7%. Meanwhile inflation has risen (to 4.4% in February), pushing up the welfare bill and putting pressure on household incomes. The Bank of England's monetary policy committee is split on whether to raise interest rates, but it has got more hawkish. Mr Osborne

could have softened the effect of a future interest-rate hike by loosening fiscal policy a jot. Yet by not loosening, he has made it more likely that the bank will delay putting up rates-and he has also maintained his deficit-reduction strategy. On balance he did the right thing.

Politically, that strategy is far from old news. Its real-world impact will begin to be felt only in full next month, when a gamut of tax rises, benefit cuts and public-sector pay freezes take effect. This week Mr Osborne announced some measures designed to make the squeeze look fairer, such as a new crackdown on tax evasion. He pinched North Sea oil companies by introducing a "fair-fuel stabiliser", which will fund a deferral of rises in fuel duty (currently a big gripe in Britain as elsewhere) through an increased levy on oil production, so long as the oil price stays high. Bashing business is never good, but his swipes at the usual targets were relatively harmless.

And compared with last year's policies, they were trivial. This budget's most interesting bits were the ones designed to rebuff those who say the government is better at inflicting pain than at fostering economic gain, and to help win Mr Osborne's underlying bet: that the private sector will provide the growth and jobs to compensate for the state's retrenchment.

Growth is a trickier subject than cuts for governments in general and this one in particular. If a chancellor has the gumption-and Mr Osborne seems to-he can bend the public finances to his will. By contrast, he is likelier to hinder growth than cultivate it. Mr Osborne is anxious not to seem the dry neoliberal of caricature: his camp stresses his intellectual debt to Michael Heseltine, an interventionist Tory minister of the 1980s, as well as to Nigel Lawson, a tax-cutting Thatcherite chancellor. But a fully fledged industrial policy does not chime with the government's world view as fixing the deficit does.

Some of what Mr Osborne had to say was depressingly familiar. A plan to create new "enterprise zones" (see article) might-or might not-prove more effective than similar, underwhelming efforts in the past. Promises to cut business regulations are good but in the past they have seldom been met. And his sensible bid to loosen up the sclerotic planning regime might be thwarted by nervous local councils.

Mr Osborne's basic message on growth, however, was that he wants to make Britain a better place to do business. He sees the global economy as a contest to attract increasingly mobile companies; as part of it, he announced that corporation tax would be cut faster than expected, plus some useful incentives for entrepreneurs and investors. (He also floated the idea of merging income tax and national insurance, a complicated ancillary tax: he should have just got on with it.) Like his populist fiddles, these measures were relatively modest, but their thrust was welcome: that Britain can only prosper as an open, trading nation with a thriving private sector.

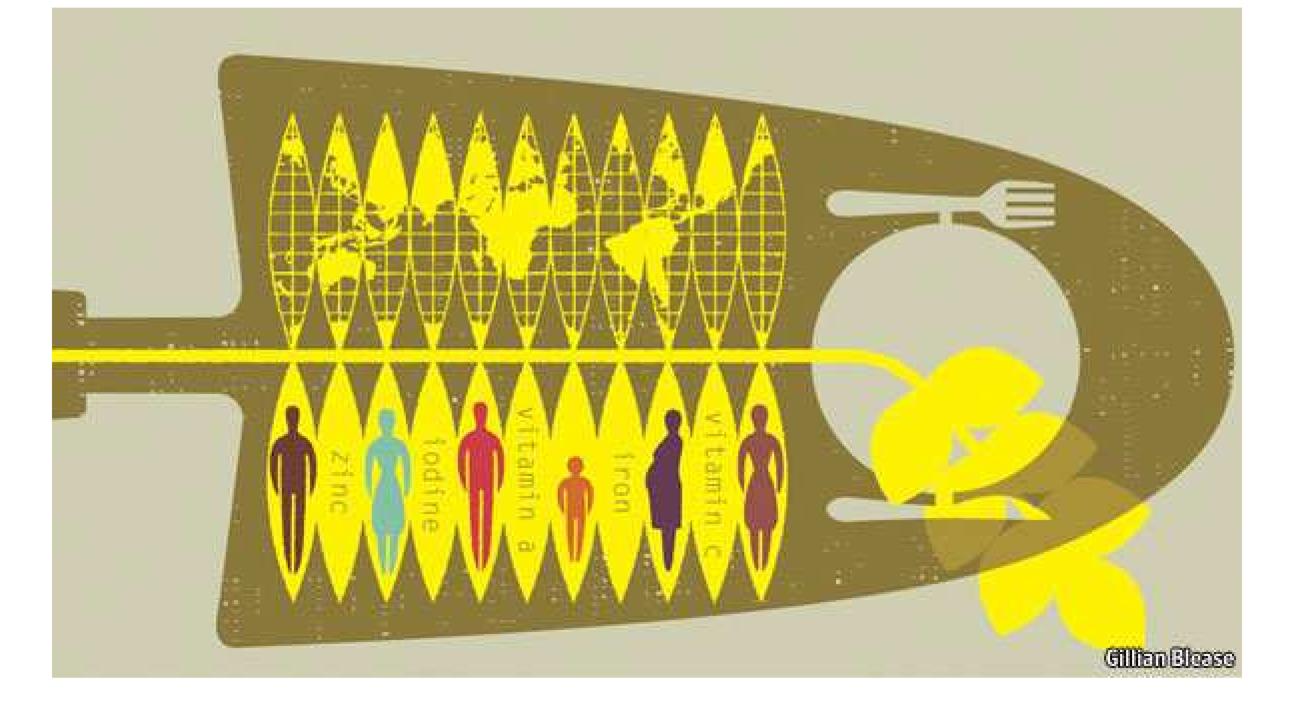
And a skilled workforce. One of the country's biggest economic problems is the educational failure of a stubbornly large chunk of its population. Labour's basic solution was to fix the symptoms of that failure, making exams and access to university easier. This week Mr Osborne found some money for new technical colleges-the hope being that vocational education will one day rival Germany's, complementing the government's broader school reforms. That is an even longer-term project than deficit reduction-but even more vital.

Index | Leaders

Nutrition

Quality, not quantity

Why small doses of vitamins could make a huge difference to the world's health



AT THE depths of the Great Depression, George Orwell wrote of the English working classes: "The basis of their diet is white bread and margarine, corned beef, sugared tea and potato-an appalling diet. Would it not be better if they spent more money on wholesome things like oranges and wholemeal bread?...Yes it would, but the point is, no human being would ever do such a thing....A millionaire may enjoy breakfasting off orange juice and Ryvita biscuits; an unemployed man does not...When you are underfed, harassed, bored, and miserable, you don't *want* to eat dull wholesome food. You want to eat something a little bit *tasty*."

Orwell was describing something that has become one of the world's neglected scourges: the bad diet of the poor. When people think of malnutrition, they usually picture its most acute form-listless infants with bloated bellies, the little victims of famine. But there is a chronic manifestation of hunger, too, milder but more widespread. It affects those with enough calories to eat but too few micronutrients (vitamins, minerals and so on). They suffer the diseases of poor nutrition.

These diseases are stunningly widespread. Over half of women in India and two-fifths of those in Indonesia are anaemic-deficient in iron. Lack of vitamin A causes membranes around the organs to shrivel, leaving them vulnerable. The first to go are the eyes: half a million children become blind each year. Then, the other organs: half of those children will die within 12 months. In Malawi a third of the population do not have enough calories; two-thirds lack vitamin A.

Such deficiencies do long-term damage to societies as well as to individuals. Compared with their better-fed peers, nutrition-deficient children have more diseases and lower educational standards (perhaps because they cannot concentrate in class). Nutrition-deficient adults earn less and are more likely to die early (see article). Famines lay waste to countries; bad diets cripple them silently.

Governments often try to deal with the problems of nutrition in the same breath as the problems of starvation: by dishing out cheap food. India gives subsidised food to over 400m poor people. Egypt spends over $2 billion a year on cheap bread. These policies do almost nothing to get micronutrients to those who lack them.

What is needed are little interventions: adding iodine to salt here, doling out vitamin A supplements there. Even relatively small doses work. Yet they also raise one of the great puzzles of development. These are, by some measures, the best investments you could make. When the Copenhagen Business School asked some Nobel-winning economists the best way to spend money to help the world, nutritional projects topped the poll. Vitamin A supplements cost just a dollar or two. Their benefits-preservation from fatal diseases, higher lifetime earnings-so massively outweigh the tiny costs that poor people ought to snap them up. Yet they don't. Orwell put his finger on why. The poor want something tasty. They may not believe nutritional experts who promote special diets (rich Westerners have been known not to stick to diets, too). Or food itself may not be their priority. As Orwell said, "There is always some cheaply pleasant thing to tempt you."

Good food by stealth

The implication is that there should be a rethink of poor countries' food policies. Top-down efforts fail. But governments, companies and international institutions can do good by stealth. Firms like Nestle and Kraft are busy stuffing packaged

foods with extra nutrients. People buy them because they like the taste. "Biofortified" foods (crops with extra vitamins bred into them) work, too. Public money should be concentrated not on supplying cheap food but on providing for those who do not control what they eat: babies and children. The most important period in anyone's nutritional life is the first 1,000 days. Improving infant diets does a lifetime of good. But this depends on education and policy "nudges", not cheap rice.

Index | Letters

Letters

On Britain and Europe, property, affirmative action, Giuseppe Garibaldi, Switzerland, Mormons

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Letters are welcome via e-mail to letters@economist.com

Outside the euro club



SIR - Bagehot was right to flag up the dangers posed to David Cameron's strategy on Europe from summits in Brussels held exclusively for the countries in the euro zone (March 12th). However, Bagehot also underplayed how much this is Britain's own fault. Britain has always deliberately chosen to misunderstand the text of the various European Union treaties, and in particular the reference that the signatories (including Britain) are "determined to lay the foundations of ever closer union among the peoples of Europe".

The British pretence is that the phrase doesn't mean what it says, and that grand euro initiatives will as a consequence not get very far. Perhaps the biggest culprit in this regard was John Major, who, when prime minister in 1993, wrote in your newspaper that talk about a European currency had "all the quaintness of a rain-dance and about the same potency" ("Raise your eyes, there is a land beyond", September 25th 1993). Yet that currency duly appeared on time and is now in use in 17 countries. Having failed to anticipate its birth, Britain is now in danger of failing to appreciate its users' willingness to keep it.

Nobody wants to go back to the drachma, escudo or lira. It is true that some might want to go back to the Deutschmark or guilder, but Germany won't let that happen.

Robert Satchwell
Haarby, Denmark

In the slumps

SIR - Your special report on property (March 5th) made scant reference to two important determinants of the American residential property market: the underlying demographic impacts on demand and supply, and the serious shortcomings of a fixed-rate mortgage market. While the demand function for first-time buyers is frequently analysed, the fact that Americans make their largest home purchase at the average age of 45 is rarely considered. Once one appreciates this fact, and that the apex of the baby boom was 1961, it should be no surprise that the peak year of inflation-adjusted home prices was 2006, after 15 years of increasing demand.

The average age at which Americans make their largest home sale is 60. Since the number of Americans born in 1976 is almost 25% lower than the number born in 1961, and the bulk of aggregate property value is in the largest homes, it is therefore reasonable to assume there will be no demand and supply equilibrium in the American market until approximately 2021.



Moreover, in addition to the 25% of homeowners with negative equity, a similar proportion have insufficient positive equity to refinance their high fixed-rate mortgages. Until home equity improves and/or a vibrant variable-rate market develops, there will be many reluctant homesellers.

The outlook for homeowners is unavoidably grim. Fed funds will therefore probably remain very low until home prices rise materially. Meanwhile, those who borrow at 100 basis points over fed funds to buy attractively priced liquid securities will probably make out like bandits.

Ian Ellis
President
MicroCapital
Southport, Connecticut

* SIR - There is an embarrassingly simple way to restrain future credit-fed property bubbles: the valuation of property assets offered as collateral should lag behind changes in market prices, thus curtailing the increase in loan amounts. Regulators could instruct lenders that the combined maximum loan amount should not exceed 85% of the moving-average value of a property, offered as collateral, over the preceding four to six years.

To get at the moving-average price of an asset given as collateral, lenders could use objective house-price indices, such as the S&P/Case-Shiller index, to adjust the current market price of that specific asset closer to its cycle average value, after establishing the specific asset's current market price, in the usual way.

Amos Rubin
Bank of Israel retired economist
Jerusalem

SIR - On one hand, you point out that "American households have more of their wealth in real estate than any other asset" ("Home truths", March 5th). But on the other, you suggest ending mortgage-interest tax deductions, doing away with Fannie Mae and Freddie Mac without replacing them with support for long-term, low-interest mortgages, ending exemptions on capital-gains taxes, and requiring up to 15% down payments on homes from first-time buyers.

We Americans whose wealth lies in property pray that our politicians do not take your advice.

Rob Crosby
Nashville, Tennessee

Positive action on minorities



SIR - Regarding the difficult issue of integrating second-generation immigrants into their home countries and communities, your leader ("Second life", March 5th) made the common assumption that affirmative action for minorities has to involve quotas. However, affirmative-action policies can also come in the form of policies that build extra capacity. Good examples are additional language classes for children, bursaries to attend university and sports programmes in urban minority communities. The United Nations International Convention on the Elimination of All Forms of Racial Discrimination states not only that such initiatives are not discriminatory, but that they may actually be required in order to correct historically entrenched discrimination.

Quotas are attractive to governments because they are virtually cost free. It is nice to think that you can correct inequalities at the stroke of a pen. The reality is that you need to put some resources into the issue.

Chris Chapman
Minority Rights Group International
London

Garibaldi, a hero to some



SIR - Your review of David Gilmour's "The Pursuit of Italy" asserted that men like Giuseppe Garibaldi "were patriots, but by no means heroes" ("Avanti", February 26th). Evidently you ignored G.M. Trevelyan's historical works on Garibaldi, in which he describes Garibaldi's bravery in leading the Sicilian campaign. The *Encyclopedia Britannica* says that, the qualities that Garibaldi displayed-skill as a general, extraordinary personal courage, determination never to surrender-gave him a European reputation as a superman, the hero of two worlds.

You also described as "illegal" Garibaldi's "invasion" of Sicily. Apart from the fact that it was more akin to a liberation, was the American revolution also illegal? Or the Glorious Revolution in 1688 that overthrew King James II in England?

Alessandro Cortese de Bosis
Rome

The Swiss life



SIR - With all due respect I don't know how you arrived at the conclusion that expat traders are "bored and frustrated" in Switzerland ("Careful what you wish for", March 5th). Swiss cities consistently top many quality-of-life rankings, including *The Economist*'s own. Property prices are quite reasonable, if you look at what you get, and Switzerland is probably the country with the least red-tape in Europe. In cities such as Geneva, Zurich and Zug there are many foreign residents, so blending in is not a problem. Taxes are among the lowest in Europe, and I can also recommend many places for a nice Sunday lunch, so you won't "have to drive to France" for that. I also disagree with your quote about cuckoo clocks.

Christian KÃ¤lin
Partner
Henley & Partners
Zurich

Political beliefs

SIR - We should be wary of appointing Mormons to positions of high public office ("When the saints come marching in", March 5th). Mormonism is a strange religion. Its adherents fail to understand that the only authentic way to receive divine revelations is on stone (not gold), up a mountain (not in a wood) and during a period of history when the reliability of eyewitness accounts was so much greater than it is today.

David Hulbert
London

* Letter appears online only

Index | Briefing

The Libya campaign

Into the unknown

The coalition has begun its self-appointed task. But what is the aim, and what is the endgame?



EVEN as French warplanes set off on March 19th, under a United Nations mandate, to stop Muammar Qaddafi's tanks and artillery reaching the Libyan rebel stronghold of Benghazi, it was clear that the hastily assembled "coalition of the willing" would have to make it up as it went along. The pace of events on the ground had left little time for reflection.

Security Council Resolution 1973, passed less than 48 hours earlier with Russia, China, Brazil, India and Germany abstaining, was a triumph for French and British diplomacy. France's president, Nicolas Sarkozy, had worked energetically to persuade Arab countries to make an appeal through the usually fairly useless Arab League for the UN to come to the aid of Libyan civilians. David Cameron, Britain's prime minister, had done his part by nudging the Americans to overcome their reservations about military intervention. Remarkably the resolution, which was co-sponsored by Lebanon, gave the allies an almost free hand, short of a full-scale invasion and occupation, to use "all necessary measures" to protect civilians from Colonel Qaddafi's advancing forces.

Yet those words have led to some confusion, among both allies and rebels, about what could or should be done. There has been wrangling, too, over who should lead the operation when the Americans carry out their pledge, supposedly within the next few days, to withdraw to a merely supportive role.

It already looks as if establishing the no-fly zone was the easy part. The first barrage of nearly 120 Tomahawk cruise missiles from American warships and a British submarine, which struck 20 command-and-control sites, severely damaged the regime's ability to operate its air-defence system. Further salvoes of cruise missiles and attacks by British, American and French aircraft over the next few nights appear to have finished the job, although Colonel Qaddafi may have saved some of his radar simply by turning it off.

By March 22nd a no-fly zone covered most of the rebel-held eastern coastal region. Combat patrols were being flown by aircraft from countries including Canada, Spain, Denmark, Italy and Belgium. Planes from Qatar were expected by March 27th. Over the next few days the aim is to extend the zone eastwards until it covers the whole of the coast to the capital, Tripoli. A *de facto* maritime exclusion zone has also been imposed, preventing Colonel Qaddafi from either resupplying his forces or shelling rebel-held cities from the sea.

How useful the no-fly zone will be in halting the regime's counter-offensive is debatable. Colonel Qaddafi may have had fewer than 40 operational combat aircraft at most, and has many fewer now; but his fleet of attack helicopters (also vulnerable to "all necessary measures") has provided close support for ground troops, which at times has given him a critical advantage.

In some ways, the no-fly zone is as much a diplomatic as a military tool-a way of binding together a visibly fragile 14-nation alliance. But as the drafters of the resolution realised, it was never going to be enough on its own to prevent Colonel Qaddafi from killing his people.

Even without their combat aircraft and helicopter gunships, Colonel Qaddafi's paramilitaries are proving too well-trained and well-equipped for the motley rebel forces to withstand on their own. The spectacularly destructive results of the first

French attack on the loyalist forces descending on Benghazi may have led the rebels to think that their fighting would be done for them, and that their enemies would quickly crumble. But it had its effect because Colonel Qaddafi's men, in their desperate attempt to reach Benghazi before the allies could get their act together, had allowed their supply lines to become dangerously overstretched, leaving tanks, transporters and rocket launchers strung out as sitting ducks along the desert road.



Benghazi and other rebel towns in the far east of the country, such as Tobruk, are now relatively secure from any attempt by the regime to recapture them-a huge change from only a few days ago. But the picture in towns already controlled by Colonel Qaddafi's forces is less clear-cut. The rebels' attempt on March 21st to relieve the strategic crossroads town of Ajdabiya, 145km (90 miles) south-west of Benghazi, showed what they are up against and the limits of their military capability.

Emboldened by the coalition's demand that the regime should pull back from Ajdabiya, which was retaken by government forces last week, the rebels hoped that air attacks would do the same job for them as they had outside Benghazi. When jets were heard overhead, followed by big explosions, a few hundred rebels, toting a variety of light weapons from pick-up trucks, charged forward. But as shells and rockets began raining down on them they fled as quickly as they had come. Without discipline or training, adequate communications or a unified command structure, they are no match for Colonel Qaddafi's men.

Repulsing government forces from Ajdabiya, which controls the water supply to Benghazi, is a key objective for the coalition and the rebels. Coalition aircraft began launching strikes on the loyalist forces on March 22nd, but they have so far proved hard to dislodge.

The situation in Libya's third-largest city, Misrata, only 130 miles east of Tripoli and with a population of more than half a million, appeared even more desperate. After more than a week of heavy fighting in which well over 100 people are said to have died, the government announced on March 21st that it was in full control of the town. That now looks premature. Loyalist tanks and artillery that had been sporadically bombarding the city for several weeks were silenced (at least temporarily) after pinpoint air strikes on the 23rd. According to reports from within Misrata, many of the tanks were destroyed and many of Colonel Qaddafi's men were seen fleeing. Snipers, however, continued their deadly work in the centre and around the main hospital.

In Tripoli, despite the nightly attacks on the regime's command-and-control centres, there is not much sign of the government losing its grip. The regular pro-Qaddafi demonstrations do not accurately reflect feeling within the capital, but there is no way of knowing how strong opposition to the colonel may be.

A further complication for the coalition is the predictable exploitation of "human shields" (apparently, mostly volunteers) to protect high-value government targets. On March 21st an RAF Tornado aborted its mission close to Tripoli after it was warned that civilians, including some foreign journalists, were close to its target.

The strikes on Tripoli also raised the question of whether trying to kill Colonel Qaddafi himself was consistent with the terms of the Security Council resolution. The legal advice appears ambiguous. "Regime change" is not an allied goal, even though nobody believes that a peaceful, democratic Libya is possible while the colonel is around. On the other hand, if it is clear (as it surely is) that Colonel Qaddafi has given orders that have resulted in the butchering of Libyan civilians, he is indeed a legitimate target. This seems to be the position of the British government, which on March 21st was quick to slap down the chief of the defence staff, Sir David Richards, who had grumpily told a BBC journalist that going after Colonel Qaddafi was "absolutely...not allowed".

Who leads?

All this means that the coalition urgently needs to work out what its strategic objectives are and what it is prepared to do to achieve them. But before that, it must sort out who is going to lead it.

The Americans were willing to accept that role in the first phase of the campaign because of the range of assets (from the opening cruise-missile barrage, to electronic jamming, intelligence-gathering, mission co-ordination and fuel supply) that only they could bring to the speedy establishment of the no-fly zone. But in line with the new humility and commitment to multilateralism that Barack Obama preaches, they were adamant that they would then hand over to somebody else.

That did not, however, mean falling in with Mr Sarkozy's preference for a Franco-British command. Mr Sarkozy argued from the start that he did not want the operation led by NATO, because NATO is seen in the Arab world as a tool of American power, and Arab support for the coalition is already weak. The Americans and the British, however, were reluctant to sideline NATO. The result was a fudge agreed late on March 22nd. Mr Sarkozy and Mr Obama agreed that NATO would assume day-to-day military command of the no-fly zone under Admiral James Stavrides, the American supreme allied commander in Europe; but that, reflecting some of NATO's own divisions, particularly the ambivalence of Turkey and Germany, political control would lie with the members of the coalition rather than with the North Atlantic Council, the main decision-making body of the alliance. However, late on March 23rd Turkey's opposition to coalition ground attacks stalled the signing of the compromise.

Obstructions of this sort make it all the harder to settle other essential matters swiftly. The first is to devise a realistic set of strategic goals. One may already have been achieved. With no more than about 10,000 troops available and with any advance across the desert acutely exposed to coalition air strikes, Colonel Qaddafi has almost certainly lost his chance to reimpose his authority in the east.

However, there have been doubts about how far attacks from the air could help the civilians who are within Colonel Qaddafi's reach. The position of the government forces besieging Ajdabiya looked precarious after air attacks on March 22nd, and they were said to be running out of ammunition. But the big test is bringing help to Misrata. Admiral Samuel Locklear, a coalition commander, said that all options were being considered.

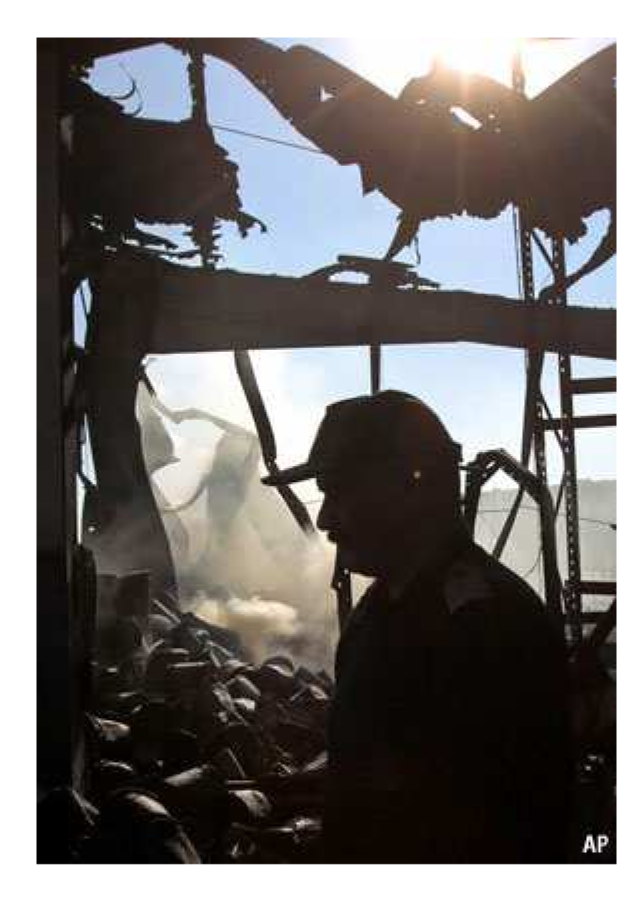
Misrata is important not just for humanitarian reasons. If it cannot be saved, or the cost of doing so is deemed too high, the coalition would be sending a signal that for now there is not much it can do to prevent Colonel Qaddafi consolidating his position in the western half of the country. But if coalition air strikes are able to take out government heavy weaponry in urban areas without significant risk to civilians, as appears to be happening in Misrata, the pessimists may be confounded.

What happens to Misrata, in other words, could define the extent of the coalition's objectives, at least in the short term. It must decide whether there is any realistic prospect of the rebels taking on Colonel Qaddafi's forces and power structure in the west. The rebels themselves are reported to be divided between those who believe that the regime can be toppled with one more push, as long as they are supported by coalition air power, and those who believe that a temporary stalemate makes more sense. During such a stalemate, the rebels' national council in Benghazi could turn itself into a government-in-waiting capable of speaking with one voice, and much-needed military capabilities could be developed.

There may also be some tension within the coalition between those keen to attempt a speedy resolution and those who are resigned to a lengthier engagement. Patience is still likely to be the better bet, unless the regime collapses from within.

Misrata makes that outcome just a bit more likely. Colonel Qaddafi's troops and supporters are rapidly learning just how devastatingly effective western air power can be. But without substantial defections from the loyalist army, the rebels

cannot hope to become a cohesive military force unless they receive weapons and training from outside, which would seem to be in breach of the UN arms embargo.



A short-term partition of Libya might be bearable, but a long-term one raises the prospect of an arms race, rapid economic decline and Colonel Qaddafi resuming his sponsorship of international terrorism. Algeria, which disavows the Arab League declaration, might start rearming the colonel across his western border.

Two further pressing issues for the coalition will be the enforcement of sanctions against the regime and the question of whether the rebels can gain access to Libya's (diminished) oil revenues. The biggest refinery, at Ras Lanuf, lies in what is likely to be the rebels' area of control; so too do many of the oilfields. On the other hand, if reports that the colonel has $6.4 billion-worth of gold stashed away in the country's central bank in Tripoli are true, he has a potential advantage in any war of attrition. If he can liquidate this hoard into cash, arms and food, his chances of clinging on indefinitely will be boosted.

Given the range of uncertainties, the question of targeting Colonel Qaddafi himself becomes more relevant. Without him, it is hard to see the regime surviving for more than a few weeks. The coalition will not change its declared position that killing the Libyan war leader is not on its list of objectives. But were it somehow to happen, few would complain.

Interactive: See our map of global diplomacy on Libya at **Economist.com/libdiplomacy**

Index | Briefing

Barack Obama's Middle East policy

From Oslo to Benghazi

A Nobel prizewinner's voyage of discovery



WHEN he collected his Nobel peace prize from Oslo in December 2009, Barack Obama acknowledged the oddity of receiving such an honour while commanding the American-led wars in Iraq and Afghanistan. He also made it plain that the use of force might be justified on humanitarian grounds-as, in his view, it had been in the Balkans in the 1990s. To that extent, at least, he had prepared the ground for Libya. It has nonetheless come as a shock to many Americans to find themselves plunged so abruptly into a new war in an Arab country. How did that peaceable Mr Obama get them into this?

From the very beginning of his presidency Mr Obama had little choice but to run an active policy in the Middle East. He needed to extricate American forces from Iraq (the better to prosecute the war in Afghanistan); he faced the continuing challenge of Iran's suspected nuclear-weapons programme; he had to carry on the fight against al-Qaeda; and, like many presidents, he inherited an explosive stalemate in Palestine. But to these pressing practical demands he added a broader aspiration: repairing the damage done by George Bush's reaction to the attacks of September 11th 2001 on America's relations with the Muslim world, especially with the Arabs.

In June 2009 Mr Obama gave voice to the aspiration in a speech in Cairo, where he was the guest of the then dictator, Hosni Mubarak. He told his eager audience that he was seeking "a new beginning" based on "mutual interest and mutual respect". He also spoke at length about democracy, and the controversy generated by America's push for it in the wake of the Iraq war. Mr Obama's argument was that "no system of government can or should be imposed upon one nation by any other". America did not presume to know what was best for everyone. But that did not lessen his commitment "to governments that reflect the will of the people".

Since those two speeches, a strange thing has happened. The practical problems Mr Obama inherited in the Middle East have proved obstinately hard to resolve. In the meantime, however, the abstract issues he raised in Oslo and Cairo have thrust themselves to centre-stage. The Arab awakening has demanded rapid decisions about whether to support or abandon friendly autocrats such as Mr Mubarak. And in Libya Mr Obama has had to rush in double-quick time through a real-life version of his Oslo argument: that America sometimes has to use force on humanitarian grounds.

Lovely in the spring

The early part of the Arab awakening was simplest for Mr Obama. Some Americans construed the people-power revolution that toppled Mr Mubarak in February as a blow to the United States; but if Mr Obama shared these qualms, he hid them well. "Egypt will never be the same," he said, implying that it would be better.

From the outset, according to a senior administration official, Mr Obama not only concluded that Egypt's president of 30 years was beyond saving. He also welcomed this example of peaceful democratic change driven from within and not, as in Iraq, by Western power. This development, Mr Obama concluded, had "a very good upside" for the United States. The

emergence of a democratic Egypt would at last help America to align its interests with its values and sharply counter the message of violent change preached by al-Qaeda.

Mr Obama's optimistic reading of events was all every well when Tunisia and Egypt were the templates for change. But it was too much to expect all the long-entrenched autocrats of the Arab world to go so gently into their good nights. In Yemen and Bahrain, pro-American regimes are clinging bloodily to power in spite of America's pleas for reform. Since both have been highly useful to the United States (Yemen helps to hold al-Qaeda at bay and Bahrain hosts the Fifth Fleet), this makes it much harder for Mr Obama to align his country's interests with its values.

Libya, the Americans insist, is a completely different kettle of piranhas. Even after giving up an illicit nuclear-weapons programme and compensating victims of the Pan Am bombing of 1988, Colonel Qaddafi was never America's ally. And the depredations he has unleashed on the opposition eclipse anything witnessed so far in the course of the Arab awakening. That is why, on March 3rd, Mr Obama said the colonel had lost all legitimacy and had to "step down from power and leave". To nudge him on his way Mr Obama closed Libya's embassy in Washington, froze many of his assets and promoted international sanctions.

At the beginning of March, in other words, Mr Obama's policy seemed to be regime change by exhortation and sanctions. The exact sequence of events that resulted in American forces being ordered into action just over a fortnight later is now hotly disputed. But what finally changed Mr Obama's mind is no mystery: it was the imminent fall of Benghazi, the biggest city still in rebel hands, and the prospect of a calamity befalling its 700,000 or so inhabitants. "We cannot stand idly by when a tyrant tells his people that there will be no mercy," Mr Obama said on March 19th. Though removing Colonel Qaddafi remains American policy, Mr Obama insists that this is not the aim of the military action authorised by the Security Council.

Most Arab leaders have little love for Colonel Qaddafi, so have muted their criticism of this latest war. But the "very good upside" Mr Obama discerned when he abandoned Mr Mubarak in February is no longer such a sure thing. It is much harder for him to maintain that counter-narrative of peaceful democratic change, which was supposed to disconcert Iran and al-Qaeda, while American missiles rain on Libya.

Meanwhile, the big regional problems that confronted America before the Arab awakening have not gone away. After his Cairo speech, Mr Obama tried to make good his promise to push for peace in Palestine. Last year he attempted to kick-start negotiations between Israel and the Palestinians, and picked a fight with Israel's prime minister, Binyamin Netanyahu, over Israeli settlements in the occupied territories. But the initiative failed, and in February Mr Obama ordered a veto of a Security Council resolution that would have condemned the settlements.

Mr Obama has had only slightly more success with Iran. After intricate diplomacy last year, he won Russian and Chinese support for a Security Council resolution that applies tough new economic sanctions. Yet the tighter squeeze has not made the Iranians stop enriching uranium.

The administration hopes that the Arab awakening may revive Iran's pro-democracy"green revolution" of 2009. At that time, Mr Obama limited his support for the opposition out of fear that an American embrace might taint it. Now he is less cautious: in a message for the Persian new year he told Iran's young that they were not "bound by the chains of the past". For the time being, however, the regime is holding firm.

Iran also has the satisfaction of watching Mr Obama's response to the Arab awakening weaken some of America's oldest alliances in the Middle East. The Gulf rulers in general, and Saudi Arabia's King Abdullah in particular, began to lose faith in America's reliability as a protector the moment Mr Obama decided to abandon the faithful Mr Mubarak. The Saudis are reported not to have consulted America before deciding that they would send troops across the causeway to help the embattled royal family in next-door Bahrain.

To opponents at home, all this is evidence that Mr Obama is out of his depth. Sarah Palin, on a visit to Jerusalem, said that if she were president she would have shown "more decisiveness". Maybe. But Mr Obama can at least say that his improvised responses to the fast-moving Arab awakening have conformed broadly to the principles he laid out in his thoughtful speeches in Cairo and Oslo. If only intellectual consistency were a guarantee of success in war and diplomacy.

Index | Briefing

Scotching the snake

Muammar Qaddafi is universally reviled. But rulers have their own restive people to worry about



FIVE years ago a furious mob in Libya's second city, Benghazi, torched the Italian consulate, the city's only European diplomatic mission, prompting police gunfire that killed ten people. The rioters' anger had been sparked when an Italian minister donned a T-shirt sporting a cartoon, originally printed in a Danish newspaper, that ridiculed the Prophet Muhammad. But xenophobia had long simmered in the city.

Today Benghazi's rebellious citizens cheerfully fly the French tricolor, in recognition of France's crucial, just-in-time dispatch of warplanes to save the city from recapture by forces loyal to Libya's embattled leader, Muammar Qaddafi. When their revolt began last month, many rebel leaders had bridled at the thought of Western intervention. Now they unanimously welcome the no-fly zone, and pray it may extend to tactical support for their ragtag forces on the ground.

The fast-spreading Arab spring has similarly upended many other givens in the region's politics. Old alliances have foundered and new ones are emerging as governments grapple with, or are overcome by, forces of change. Leaders have been compelled not merely to pay lip service to their peoples' demands, but to respond to them. The regional order, always fragile, is now also fluid.

Corralling joint Arab action has always been difficult. With every country now embroiled in internal troubles, the result these days is diplomatic paralysis. In this context, the unprecedented agreement last week by the Arab League's 22 members to invite the UN Security Council to intervene in Libya was surprising. In part it reflected the accumulated personal annoyance of Arab leaders with Colonel Qaddafi over such misdemeanours as his reported dispatch, in 2004, of a hit squad to assassinate then Crown Prince Abdullah of Saudi Arabia. But it also reflected renewed sensitivity to feelings on the "Arab street", where the revolt against Colonel Qaddafi has inspired powerful sympathies, intensified by the enthusiastic reporting of Al Jazeera, the region's most popular satellite news channel.

The channel, owned by the immensely rich Qatari royal family, has itself been targeted by Colonel Qaddafi. One of its cameramen in Benghazi, a Qatari national, was killed earlier this month by pro-Qaddafi gunmen, and an Al Jazeera crew remains in detention in the Libyan capital, Tripoli. Such things have a powerful impact in the tiny Gulf state, and may explain why Qatar is so far the only Arab country that looks likely to dispatch warplanes to help impose the no-fly zone. Perhaps more important, Al Jazeera's star religious commentator, Yusuf al-Qaradawi, an Egyptian-born preacher linked closely to the Muslim Brotherhood, has blessed both the revolt against Colonel Qaddafi and international action to support it.

The Arab League's decision was a hugely important endorsement; but it never meant that the League would suddenly engage in war too, despite initial calls from Libyan rebels for Arab help. Since the no-fly zone began to be enforced both the group's secretary-general, Amr Moussa, and individual members such as Algeria have voiced concern that the operation may be exceeding its mandate to protect Libyan civilians. Mr Moussa says this does not represent criticism of the coalition, and that Arab backing remains solid. But it is clear that some Arab states remain queasy about endorsing what may amount to a programme for regime change.

Others worry that a prolonged or fiercer aerial siege could cause civilian casualties, and an angry popular backlash, building on deeply ingrained distrust of Western intentions. It is significant, also, that Mr Moussa himself is set to retire, and plans to run in post-revolutionary Egypt's first presidential election. In a region in which leaders have never previously had to bother about pandering to potential voters, calculating the public mood has now become a necessary talent for budding politicians.

Looking for guidance

If the Arabs appear to be sitting on the fence, this is also because the two countries that have traditionally set Arab agendas, Egypt and Saudi Arabia, are preoccupied elsewhere. As Libya's neighbour, Egypt, with a population more than 12 times bigger and a new government predisposed to ejecting dictators, might have played a strong part in Libyan affairs. But not only is Egypt's much larger army fully occupied by events at home; its new foreign minister, Nabil el-Araby, plans to shift Egyptian policy away from the reliance on America that characterised the three decades of rule by the fallen president, Hosni Mubarak. This will take time to evolve, but more pointedly, says Mr el-Araby, he feels Egypt's hands are tied because of the estimated 1m Egyptian workers who remain in Libya, mostly in regions under Colonel Qaddafi's control.

Saudi Arabia's position is more complicated still. Its ageing, autocratic leaders have been shocked by the fall of Mr Mubarak, a staunch ally, and infuriated by what they see as Western complicity in the wave of pressure for democratic reform. The oil-rich kingdom has also been increasingly distracted by events in neighbouring Yemen and Bahrain.

With King Abdullah and his deputy, Crown Prince Sultan, both in their 80s and ill, and Prince Saud al-Faisal, the foreign minister, also weakened by disease, foreign policy has increasingly devolved to the interior minister, Prince Nayef, aged 78, who is tipped to emerge eventually as king. The tough, short-tempered prince is a conservative, even by Saudi standards. For decades he has seen his main mission as blunting the influence of Iran's brand of revolutionary Shia Islamism.

Events in Bahrain, an island kingdom that is linked to Saudi Arabia by a causeway and whose Sunni royal family has long been buttressed by Saudi aid, have understandably alarmed Prince Nayef. Not only has Saudi Arabia pushed Bahrain's rulers to crush the month-old democratic uprising embraced by their majority-Shia subjects. Citing a 1981 mutual defence agreement between the six Sunni Arab monarchies that ring the southern shore of the Gulf, Saudi Arabia and the United Arab Emirates have jointly dispatched some 2,000 paramilitary police to Bahrain.

The intervention has quietly dismayed the Saudis' Western allies, who fear comparisons between their zeal for boosting democracy in Libya and their reluctance to do so in Bahrain, which happens to be the home base of America's Fifth Fleet. Yet the Saudis have not only brushed off complaints; they have also let it be known that more active Saudi backing for the punishment of Colonel Qaddafi is contingent on Western silence over Bahrain, and they have pressed other Arabs to refrain from criticism.

Even Syria, Iran's closest Arab ally, has explicitly endorsed the Saudi intervention (see article). Its regime, dominated by the minority Alawite sect that is an offshoot of Shia Islam, faces growing unrest, and is wary of provoking a religious backlash from its majority Sunni population.

While the show of Saudi willpower appears to have secured an uncomfortable calm in Bahrain, the potentially much more dangerous problem of Yemen festers (see article). The president of the past 32 years, Ali Abdullah Saleh, now relies almost exclusively for survival on military units run by his family, which were generously armed and trained by Western countries, ostensibly to fight terrorism. These units have been implicated in the sniper attacks in the capital, Sana'a, on March 18th that killed at least 45 unarmed protesters.

The emergence of an open, democratic Libya, linking Egypt and Tunisia in a sweep of new Arab democracies on the southern Mediterranean shore, is certainly a goal worth striving for. But the region's complexities have a way of undermining the best intentions.

America's property market

On a losing streak

The effects of America's worst property crash go very wide



TO THE many dubious distinctions of Las Vegas, add one more: foreclosure capital of America. According to RealtyTrac, a property-listings firm, one in every ten homes in the city was in some stage of foreclosure last year, almost five times the national rate. In North Las Vegas, a poorer suburb, the figure was one in five. These statistics would be even grislier were it not for lenders' inability or reluctance to eject all those who are in default at once. People who have managed to hold onto their homes are far from lucky: property prices are around 60% below the peak they reached in 2006, leaving 70% of homeowners in the area owing more on their mortgage than their property is worth. (Nationally, the proportion of homes that are "under water" is a still-awful 23%.)

All this makes Las Vegas the most extreme example of the many cities in America's sunbelt that grew rapidly thanks to the cheap and abundant credit of recent decades, only to suffer fearsome property crashes during the subprime crisis and the ensuing recession. The ten most foreclosure-afflicted cities in the country are all in Arizona, California or Nevada, notes RealtyTrac. Of the ten most foreclosure-prone states, only one-Michigan, with its car-related problems-lies outside the sunny south and west. As these places are now discovering, it is not just unfortunate property-owners who feel the reverberations of such monumental busts, nor are their effects confined to pocketbooks.

The signs of the crash are everywhere in Las Vegas. The city's outer suburbs are eerily quiet, thanks to the preponderance of unsold and foreclosed homes. There are few lights in any windows, and few cars on the roads. Banners and boards advertising hugely discounted housing flap and rattle mournfully in the desert wind. In North Las Vegas every second house on some streets carries a "For Rent" sign, offering rates of as little as $150 a month. One or two houses on each street have been boarded up and abandoned. Even on the city's famous "strip" of cavernous casinos and high-rise hotels, the razzle-dazzle is marred by the grey concrete hulks of abandoned building projects.

When a property crash becomes as pervasive as Las Vegas's, explains Devin Reiss, a former head of the Nevada Association of Realtors (NVAR), it takes on a life of its own. Nasser Daneshvary of the University of Nevada, Las Vegas has found that the value of homes near foreclosed properties falls faster than the market as a whole, until so many homes are foreclosed that average property prices fall to the level of foreclosures. That, in turn, leaves more homeowners deeper in negative equity, saddled with mortgages that vastly exceed the value of their homes. NVAR reckons that as many as a

quarter of those who suffer foreclosure do so by choice, to escape such a trap. Locals swap stories of cunning borrowers who buy second homes for a song before deliberately defaulting on their first mortgages.

This sort of downward spiral, in turn, has a dire effect on local governments, which tend to rely on property taxes for much of their revenue. Clark County, which includes Las Vegas, expects its take from property taxes will fall by over a fifth this year. The problem is all the more severe, says Susan Brager, the chairman of the county commission, since demand for the services the county provides has risen amid the downturn. Local authorities also end up picking up the pieces when developers go bust or homes are abandoned, leaving fees unpaid, infrastructure to be completed and property to maintain.

All of this ripples through the local economy. The construction business, once a mainstay, has withered. Local governments are trimming their staff. Some of those who have lost their homes or jobs have moved away: the population of Nevada started falling in 2008 for the first time in decades. And even those who stick around may be infected by the surrounding gloom. Alan Swinson, a builder living in North Las Vegas, says he has struggled to keep up with his mortgage in the past and is now determined to scrimp and save all he can to ward off future calamities. One recent study found, perhaps unsurprisingly, that high levels of foreclosure tended to drag down not just investment in property but also car sales.

The knock-on effects go further, argues Terrie D'Antonio, the head of Help of Southern Nevada, a charity. Moving house can cut people off from their friends, churches, schools and community groups. Many have lost their homes because they have lost their jobs. All this leaves them isolated and depressed. And that can lead to drug and alcohol abuse, domestic violence, juvenile delinquency and so on. The number of people turning to Help about all these problems has jumped in recent years, Ms D'Antonio says. A 2009 survey of Latino families around the country whose homes had been foreclosed had similar findings: amid the stress, marriages broke down; family members fell out; children's academic performance suffered.

The proliferation of foreclosures has impinged on politics, too. Local politicians all have pet schemes to pep up the property market. Democrats at both state and federal level have tried to cast themselves as friends to struggling homeowners, voting for various measures to encourage forbearance by banks and tide over borrowers in arrears. Shelley Berkley, the Democrat who represents Las Vegas in Congress, huffs and puffs about Republican plans to shelve such schemes: "Talk about kicking people when they're down!" But Republicans in districts with lots of foreclosures are more sympathetic to the over-indebted than the party as a whole. Joe Heck, the Republican who represents many of the city's suburbs, recently cast the sole Republican vote to preserve one of the programmes Ms Berkley is so worried about. His predecessor, Dina Titus, a Democrat, was booted out of office last year amid anger about the state of the economy-yet another victim of America's housing bust.

Index | United States

The Republican nomination

First out of the gate

But when will others follow?



Pawlenty the brave

BLAME Barack Obama's improved ratings, the plethora of news from Arabia and Japan or the vagaries of electoral-finance law: the battle for next year's Republican nomination has been slow to start. So it was a relief to the scribbling classes when Tim Pawlenty, a former governor of Minnesota, this week launched his presidential "exploratory committee". He is the first serious contender to take this traditional first step. His putative candidacy comes as no surprise though. As long ago as June 2009 he announced that he would not seek a third term as governor and since then has been busily working the conservative circuit, raising funds and embarking on the obligatory book tour to promote "Courage to Stand: An American Story".

Mr Pawlenty sat out the race in 2008, but was thought to be one of two possible "sure picks" for John McCain's running-mate that year (the other being Mitt Romney), before the Arizona senator confounded all the political pundits by plumping for Sarah Palin. The strengths of his candidacy for many Republicans then are pretty much the same today. Brought up as a Catholic in the Midwest, Mr Pawlenty became a born-again evangelical soon after his marriage. He has strong ties with the movement-the pastor at the church he attends in Minnesota is the head of the National Association of Evangelicals-giving him clout among a vital slice of the Republican base. Yet Mr Pawlenty was also generally viewed as a moderate governor, who attracted little controversy during his tenure. He left the state with a budget deficit, but has since tried to burnish his credentials as a hawk on spending. He is, perhaps, all things to all men, which might be a blessing or a curse.

His biggest problem is that he is a relative unknown, even among Republican voters. Mr Pawlenty trails far behind other putative challengers in the opinion polls, where his support is usually measured in single digits. Knowing nothing much about him, most Republicans are "unsure" when asked if they have a favourable opinion of Mr Pawlenty.

A video that accompanied the launch of his exploratory committee stresses his working-class roots. His father was a truck driver and his mother died of cancer when he was in his teens. He is a keen hockey player, an advantage in the northern states. Mr Pawlenty can portray himself as a humble, socially conservative Midwesterner, in contrast to Mitt Romney's establishment east-coast qualifications.

He has a long way to go. The fact that Libya knocked his declaration off the front pages hardly helped. He came third in a recent straw poll in New Hampshire, taking just 8% of the vote. Mr Romney came first with 35%. Mr Romney is reckoned certain to run: but which other big names (Sarah Palin, Mike Huckabee, Newt Gingrich, Mitch Daniels) will join him?

Index | United States

California's budget

The trouble with half and half

The plan to fix California's budget has run into problems

JERRY BROWN was being forced to contemplate plans B and C to save his governorship as *The Economist* went to press. He was sworn in this year (for the third time, having last been governor in 1983) as California confronted yet another budget deficit considerably larger (at more than $25 billion) than the entire budget in most other states. And because California has already made painful cuts in recent years, Mr Brown wanted to solve roughly half of the problem by cutting spending and half by extending a collection of temporary increases in income, sales and car taxes. The idea was to get a deal by making Democrats and Republicans share equally in the political discomfort.

The first half has proved relatively easy. The legislature, controlled by Democrats and newly empowered by voters to pass budgets by a simple majority rather than one of two-thirds, has already adopted most of the necessary cuts, sparing only schools among the main spending items. Democrats made the sacrifice knowing that the alternative-an "all-cuts" budget-would double the pain.

It is the other half, the tax extensions, that is proving intractable. Mr Brown won his election in part by promising no new taxes without "a vote of the people". So his plan, and his fate as governor, requires getting the tax extension onto the ballot.

He was hoping to do this in June, just before the start of the new fiscal year in July, when the temporary taxes are set to expire. That way the vote would still be about "extending" (rather than "raising") taxes. In the latest polling, a majority of voters do, in fact, favour putting the decision on a ballot, although their support has been declining. More worrying, only 46% now say they would vote for the proposed tax extensions.

But if Republican legislators have their way, the voters will never make that decision. To put the vote on the ballot the traditional way, Mr Brown needs a supermajority (two-thirds) in the legislature. That means winning over at least two Republicans in each chamber. So Mr Brown has been negotiating with five who seemed amenable. These five apparently demanded huge cuts in public pensions and red tape, and a spending cap for future years. It might seem to be a Republican dream: a wish list of goodies that make the Democratic governor (backed by public-sector unions) squirm.

But then something odd occurred. California's Republicans turned on the five. A party convention last weekend almost passed a resolution officially branding them "traitors". Egged on by Grover Norquist and other tax-haters from Washington, many Republicans renewed their anti-tax "pledges", which now seem to prohibit even a vote to let other people vote. Fearing for their careers, the five retreated.

This led to some hand-wringing within California's Republican Party. Only 31% of voters are now registered Republican. In last November's election, when Republicans triumphed elsewhere, all statewide offices in California went to Democrats. The state party's new chairman warned the convention that the party now speaks only "to the converted". And yet, the party ended the same convention by resolving to block Mr Brown's plan wholesale, opposing even the cuts.

So Mr Brown's bipartisan figleaf is blowing in the wind. It looks as though it will be too late now to get the tax extension onto the June ballot. Mr Brown could still use a legal loophole to force it on with a simple majority (ie, Democrats only), but that would look bad. He could also go the longer route and let other sponsors collect signatures to put the vote on a November ballot. But this would mean that California will enter its next fiscal year, once again, without any budget at all.

Index | United States

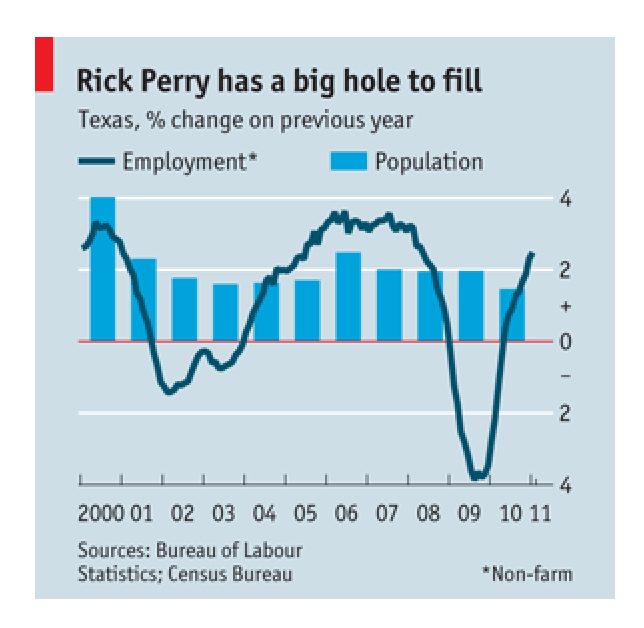
The Texas budget

A blow to the model

A $27 billion shortfall may prompt a re-examination of the state's priorities



WHILE campaigning for re-election as governor of Texas last year, Rick Perry often said that he was not too worried about the state's projected budget shortfall. Bean-counters in Austin, the state capital, had come up with sobering projections, but none of these were official estimates. But now the numbers are in. The comptroller, Susan Combs, recently totted up the receipts and handed down her verdict: $27 billion short for the 2012-2013 two-year budget period, with $72.2 billion available in general revenue funds, against a projected outlay of $99 billion. The state has only an estimated $9.4 billion in its "rainy day" fund.



In addition to the shortfall, unemployment in Texas, which was well below the national average for most of the recession, has nearly caught up. In January 2011 it was at 8.3%; the national figure was 9%. High unemployment has contributed to low sales-tax receipts, which make up almost two-thirds of tax revenue. These travails have drawn some *Schadenfreude*. During the recession, Texans were quick to point to the struggles in states like California, and to brag about the comparative advantage of Texas's low-tax, low-services model. For their part critics have long seen Texas's approach to public policy as harsh and short-sighted. They accuse the state of chasing growth at the expense of health, education, and infrastructure.

In some cases, the Texas emphasis on efficiency has yielded worthy results. In December, for example, a nationwide "Right on Crime" initiative, partly based on reforms from Texas, was unveiled. It advocates treatment and rehabilitation for people convicted of drug crimes rather than incarceration, on the grounds that treatment reduces recidivism and is more cost-effective over the long term. That is a conservative idea that liberals can support.

More broadly, though, is Texas getting an inevitable comeuppance? The state's Republican leadership has staked its reputation on fiscal discipline and a healthy economy. By those standards, they should be chastened by the budget gap and the high unemployment rate. And concerns about poor access to health care, creaky infrastructure, and a strained education pipeline are genuine.

Some of Texas's malaise must clearly be blamed on the weak national economy. The state has created more jobs than any other in recent years, including some 250,000 between December 2009 and January 2011. But it has also attracted more job seekers, and the rate of job creation has not kept up. Similarly, the state's responsibilities have grown since the previous budget cycle. Texas has added 4.3m new people in the past decade. To maintain services at their current levels would cost $12 billion more than it did in 2008-09.

The comptroller's office argues that Texas has now turned the corner. Export earnings were up 27% in 2010, for example. And strong crude prices will help; the Energy Information Administration forecasts that oil will average $93 a barrel in 2011, compared with an average of $79 for 2010 (and it could very easily be a lot more, depending on events in the Middle East). Mr Perry maintains that Texas can keep on attracting jobs. In his state-of-the-state speech on February 8th he made a point of welcoming executives from LegalZoom, a legal-documents company from Los Angeles that opened a regional office in Austin last year, nudged by generous incentives from the state and city.

Still, there is something troubling about the picture. Exports, commodities, and jobs lured from other places can only take you so far. For Texas to thrive, it must be capable of fostering talent and innovation, not simply importing it. The state and its cities have nurtured some industries, such as wind and solar, cybersecurity, and technology. Josh Williams, the head of Gowalla, a social-networking service set up in 2009, says that Austin was fertile ground for the business, partly because of the presence of the University of Texas and the low cost of living. But encouraging home-grown success in the future will require that Texas invest adequate resources in its human capital. And those resources are, at the moment, in short supply.

Texas will be able to close its budget gap this year only through brutal cuts, now being negotiated. The recommendations from the Legislative Budget Board, which advises the state legislature on appropriations, portend a difficult few years, especially for sick people, old people, and students. The suggested cuts to the primary programme that funds school districts, for example, would put the state $9.3 billion below the amount required by its own education code. If there is any correlation between state spending on public education and the performance of its schools, those are cuts Texas can ill afford.

Index | United States

Earthquake fears on the west coast

Fingers crossed

A row over a rickety viaduct

AFTERSHOCKS from Japan rattled America's west coast last week, as consumers in California rushed to buy iodine tablets they do not need and politicians in Seattle bickered about a quake-damaged highway many want to demolish.

Scientists say there is no chance that dangerous radiation will cross the Pacific. So the run on potassium iodide pills, which can block the absorption of radioactive iodine, made little sense. Californian health authorities warned residents not to compound their anxiety by eating the pills, which can cause intestinal distress and severe rashes.

In Seattle, meanwhile, the Japanese quake reminded residents that the Pacific north-west is primed for a comparable catastrophe-and is far less prepared than Japan to cope with it. The Cascadia subduction zone, just 50 miles off the coast and stretching from northern California to southern British Columbia, is accumulating stresses that could unleash an earthquake of magnitude 9.0 and generate its own tsunami. The last "big one" off the coast of Oregon and Washington is believed to have occurred in 1700, and some recent studies suggest that the chance of another occurring within the next 50 years is about one in three.

The pre-eminent symbol of poor earthquake preparedness in the region is Seattle's Alaskan Way Viaduct. It is a grubby-looking, double-decked elevated highway that was built in the 1950s and carries about 110,000 vehicles a day along the city's waterfront. A magnitude-6.8 quake damaged and temporarily closed it in 2001. State experts have since estimated that the odds of an earthquake bringing it down are one in ten over the next decade.

Concern about thousands of commuters being crushed between slabs of falling concrete has pushed the city, state and federal governments to approve a plan that would replace the viaduct with a tunnel. But fear of downtown gridlock is pushing back the closure and demolition of the viaduct until at least 2016, when the tunnel is supposed to be ready.

Having seen the devastation in Japan, Seattle's mayor, Mike McGinn, said on March 14th that the city needs to rethink. He called for the viaduct to be closed next year. He was immediately accused of fear-mongering, not to mention endangering local commerce. And state officials responded by saying that while the highway is vulnerable to an earthquake, the risk is no greater than before Japan's disaster. They said they were simply trying to balance safety with protecting the economy. To that end, they temporarily closed the viaduct last weekend to install new gates that automatically block access-one minute after a quake is detected.

Index | United States

Tabasco island

Some like it Avery hot

A place where tradition never dies



Some like it very hot

THE alligators sunning themselves on Louisiana's Avery Island breathe in air redolent of vinegar, hot peppers and salt-the three ingredients of Tabasco sauce. Though the condiment is sold in 165 countries and has been taken into space, every drop is aged, distilled and bottled on the island just as it has been since Edmund McIlhenny came up with the recipe in 1868.

His descendants own and operate McIlhenny Co., which manufactures Tabasco sauce in its famous little bottle. "Our sauce was first sold in old cologne bottles that had sprinkler tops and we kept the style," notes Paul McIlhenny, the company's fourth generation chief executive, who took control in 1999.

Tradition is strong on Avery Island, not an island in the normal sense but a three-mile (5km) long dome of salt which is surrounded by marshland and has been owned by the conjoined Avery and McIlhenny clans since before the civil war. As if the whole island were a time capsule, the extended family still lives in their antebellum homes, and the farm and factory workers still live in a compound of company-subsidised cottages, known as "The Tango". All around are fields of crimson peppers.

"The McIlhennys are known in these parts for their noblesse oblige," says Nick Spitzer, a folklorist and professor of anthropology and American studies at Tulane University in New Orleans, 140 miles east of Avery Island. "They are old guard agrarians who believe in cultural and environmental conservation."

The family maintains a 170-acre (70 hectare) botanical garden and nature preserve on the island. In a region where jobs are scarce, poorly paid and subject to the vagaries of the local oil and sugarcane industries, McIlhenny gives its employees full health and dental benefits as well as retirement plans.

"They take care of us and we take care of them," said Kate Rogers, 66, who recently retired after working for 20 years at the company, most recently as a factory tour guide. Ms Rogers' parents both worked at McIlhenny-her father hunted alligators and her mother stirred the vats of fermenting pepper mash. She and her husband, who is a welder for the company, pay just $138 per month to rent their two-bedroom, two-bathroom cottage on Avery Island. Their daughter works in the company's sales department and their son works in the island's salt mine. "As a teenager, I guess maybe I thought of leaving the island," Ms Rogers says. "But that didn't last long."

Index | United States

Lexington

The reluctant warrior

Barack Obama's risk-averse handling of the war in Libya holds political risks of its own



"WE APOLOGISE for the unplanned hiatus in bombing of the Middle East. Normal service has now been resumed." Thus one wry Facebook posting after Barack Obama launched Operation Odyssey Dawn and America unleashed its cruise

missiles. To people all over the world, it has come as a shock that this of all presidents, the man who always opposed George W. Bush's "dumb" invasion of Saddam Hussein's Iraq in 2003, should have plunged the United States into a war of his own against Colonel Muammar Qaddafi of Libya.

In America too the decision came out of the blue. Distracted by the tsunami and nuclear catastrophe in Japan, the media had lost sight for a while of the negotiations taking place behind closed doors in the UN Security Council. By the time Resolution 1973 authorised "all necessary measures" to protect civilians, and military operations swiftly followed, there had been none of the public weighing of pros and cons that preceded the Iraq war. Nor did Congress get a chance to have its say. The lack of debate was inevitable, given that the operation was, as Robert Gates, the defence secretary, later admitted, put together "on the fly" to block Colonel Qaddafi's imminent conquest of Benghazi. But now, rather like the squabbling international coalition itself, Mr Obama's many critics are scrambling to make up for lost time.

Some of the most scathing criticism has come not from Republicans but from anguished liberals. Like the neoconservatives who were so bullish about Iraq, and have now got their voices back, a few on the left are still haunted by the world's failure to prevent atrocities in benighted places such as Rwanda and Bosnia and are still willing to entertain military intervention on humanitarian grounds in some circumstances. But a good many have come to see the Iraq war as an unmitigated calamity and concluded that no good can ever come from American intervention in a Muslim country. One influential blogger, Andrew Sullivan, seems scarcely able to believe that what he calls a "neocon-bleeding heart alliance" has forgotten the Iraqi lesson so soon.

The response of mainstream Republican politicians has been more cautious. This may be due less to the fraying convention that it is unseemly to criticise the commander-in-chief and more to the fact that even a war-weary America tends to rally behind wars in their early stages. An *Economist*/YouGov poll taken after Resolution 1973 was passed and as bombing began found 67% of Americans in favour of imposing a no-fly zone, up 21 points from the previous week. Support for direct military intervention had more than doubled, to 32%. So the dominant Republican line is not that the war is misconceived-it is hard for Republicans to object to the general idea of walloping the loathsome Colonel Qaddafi-but that Mr Obama's handling of it has been incompetent.

Exhibit A in this indictment is that Mr Obama dithered. Rick Santorum, one of the Republicans' presidential wannabes, said that by taking so long the president may have "missed our window of opportunity". Senator John McCain, the Republicans' 2008 candidate, and Sarah Palin, his running-mate, voiced similar misgivings: better to have helped the rebels clinch their victory when they appeared to be on a roll than come to their defence when they were at their last gasp on the edge of defeat. For exhibit B the Republicans turn to what they see as Mr Obama's muddled definition of the war's aim and his abdication of America's vocation to lead. "I don't know what finally got the president to act, but I'm very worried that we're taking the back seat rather than a leadership role," Senator Lindsey Graham told Fox News.

As to whether these points have merit, the answer, like Mr Obama himself, is complicated. This president has never been the peacenik America's doves craved; his scorn for the "dumb" war in Iraq was always balanced by support for the "necessary" one in Afghanistan. When he collected his Nobel peace prize from Oslo in December 2009 he made a point of saying that he accepted the case for using force on humanitarian grounds, as Bill Clinton did in the Balkans in the 1990s. But justifying a war on such grounds depends on some large atrocity looking imminent-as it did by the time Colonel Qaddafi reached the gates of Benghazi and not, arguably, very much earlier.

For much the same reason Mr Obama says that although his ultimate aim is to topple Colonel Qaddafi, this must be done by non-violent means, such as diplomacy and sanctions, while the military force the United Nations authorised is used only to protect Libya's civilians. Such distinctions do matter, especially to the Cartesian Mr Obama. But this conclusion, even if reached by way of an impeccable philosophy, is in danger of leaving the average Joe, not to mention the average General Carter Ham, Odyssey Dawn's American commander, scratching his head in puzzlement. Are the coalition's jets supposed to clobber Libya's forces wherever they are or only when they are advancing? If they are attacking rebels, rather than civilians, can they be hit? Is an armed rebel also a threat to civilians, or are loyalists the only target?

Spectator-in-chief?

Many Americans are no less queasy about Mr Obama's desire for someone else-France's president, Britain's prime minister, NATO, the league of Arab dictators, whoever-to take charge, even though everyone knows the whole enterprise leans in the end on American power. His instinct is admirable: to dilute what in Oslo he called the world's "reflexive suspicion" of the superpower. He also, presumably, would prefer to face re-election in 2012 without bearing sole responsibility for another war in the Arab world. But letting a committee run a war is a risk too. A safer, if less principled,

path to re-election would be for him to topple the colonel quickly, with less scruple for the sensitivity of allies and the letter of the law. Assuming that is possible, of course.

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Canada's politics

Here we go again

Will yet another election break Canada's parliamentary gridlock at last?



CANADIANS have been to the polls three times in the past seven years. On March 23rd the country's three opposition parties vowed to bring down the minority Conservative government at the first opportunity, either by rejecting its budget or by a no-confidence vote. As *The Economist* went to press, an election seemed inevitable-only a last-minute change of heart by one of the parties before a vote is called could prevent one. Yet according to recent polls, voters are likely to choose a Parliament almost identical to today's. So why are Canada's parties spoiling for a fight?

The budget itself probably has little to do with it. Because the Conservatives have promised to bring the C$40.5 billion ($41.3 billion) federal deficit down to nearly zero by 2014-15, Stephen Harper, the prime minister (left, above) has proposed little new spending. What largesse he is offering has been sliced and diced to appeal to specific interest groups, including elderly people on low incomes, families with children in arts programmes, health-care researchers and volunteer firefighters. Business leaders were especially pleased that the Conservatives did not give in to the opposition Liberals' demand to delay corporate income tax cuts scheduled for next year.

The main reason an election is imminent is that both Canada's main parties think that with a successful campaign they can defy the polls to break the country's political stalemate. The Conservatives finished first in both the 2006 and 2008 elections, but could not win a majority, making them the longest-serving minority government in Canadian history. The parties' poll numbers have barely budged in the past five years.

The centrist Liberals, who ruled for almost 13 years before losing to Mr Harper, see this as proof that the Conservatives have already hit their electoral ceiling. Although Michael Ignatieff, the Liberal leader (right, above), has so far proved wooden and snooty on the hustings, the party hopes that he has discovered how to connect with voters on a recent series of cross-country tours. He calls the Conservatives the "Republican Party North"-a slur in Canada-and paints Mr Harper as an

autocrat obsessed with secrecy who is undermining Canada's democracy. A Liberal-dominated legislative committee recently found the government in contempt of Parliament for not disclosing the cost of its plans to punish more crimes with jail time and to lengthen prison sentences.

The Conservatives say that the country's economic recovery is too fragile to hold an "unnecessary election". However, they have been preparing for a campaign for months. In 2008 Mr Harper fell just 12 seats short of a majority in the 308-seat House of Commons, mainly because of his unwise criticism of funding for arts groups, which caused a backlash in Quebec. His party's strategists think he can take control of the chamber this time.

Mr Harper will run on his economic record, touting his popular stimulus programme as the cause of Canada's resilience in the world recession and its strong bounce-back. His attack advertisements criticise Mr Ignatieff for spending most of his adult life abroad, and question his claims about the poverty of his immigrant parents. The Conservatives are better financed than their rivals, and can focus on the most closely contested districts, since the Liberals have virtually no appeal to Mr Harper's base of western voters.

With just 77 seats in the Commons, the Liberals could not force an election on their own. But the smaller opposition parties, who have supported the Conservatives on big votes in the past, are no longer inclined to save Mr Harper. The Bloc Quebecois, a separatist party that only runs candidates in French-speaking Quebec, comfortably leads the polls in its home province. And the New Democratic Party (NDP), a leftist outfit close to organised labour, is demanding more than the budget's few token measures for the elderly and energy efficiency as the price for shoring up the right-wing Conservatives.

On election day the hopes of both the main parties will probably be disappointed. The most likely result of the poll, which should be held in early May, is another Conservative minority. However, that may not be enough to keep Mr Harper in power. In 2008, after the Conservatives proposed ending public subsidies for political parties, the Liberals and the NDP tried to form a coalition government with the support of the Bloc Quebecois. That backfired when Mr Harper then suspended Parliament, arguing that toppling the winner in an election was undemocratic, and that his rivals were betraying the country by allying with separatists. The Liberals have studiously avoided talk of reviving this plan. But given how stable Britain's coalition government appears, if the Conservatives lose enough seats, the opposition may be tempted to try again.

Barring another effort to form a coalition, the country's political landscape will probably survive the election pretty much unchanged. No wonder polls show that 85% of Canadians do not pay attention to politics. Parliamentary observers complain that the fragmented legislature has made the country's politics more negative and short-term. But Mr Harper has managed to govern effectively despite his lack of a majority. If Canada's Parliament remains divided, that is because its people are divided as well.

Index | The Americas

Guatemala's ruling couple

Divide and rule

The president and first lady split up-leaving her free to run for office



TO AVOID the dynasties that have misruled many Latin American countries, Guatemala's constitution forbids relatives of the incumbent president and vice-president from running for high office. This clause had seemed to scotch the chances of Sandra Torres, the country's ambitious first lady, becoming its first *presidenta*. But on March 21st she and her husband, Alvaro Colom, announced a novel way to sidestep the rules: they filed for divorce.

Rather than being a sign of marital discord, the parting looks much more likely to have sprung from political unity. Speaking last month, Mr Colom gushed over his wife's leadership skills and the "impressive passion" she inspired. On March 8th Ms Torres declared that she would run as the candidate of National Unity of Hope (UNE), her husband's party. Candidates can register from May 2nd, and the election will be held in September.

Ms Torres's eligibility is still in doubt. The constitution excludes the president's blood relatives up to his cousins, and his in-laws up to grandparents and grandchildren. But there is no mention of exes, leaving the question up to the Constitutional Court. Its five members were chosen this month and will be seated in April.

Ms Torres is not the only candidate running on dubious constitutional grounds. Alvaro Arzu, a former president, is campaigning despite a ban on re-election. Zury Rios, a congresswoman, may be blocked by a prohibition on the relatives of the organisers of coups, since her father, Efrain Rios Montt, toppled a government in 1982 and installed himself as dictator. Eduardo Suger, another possible candidate, was born in Switzerland and may not meet the requirement to be "Guatemalan in origin". "Ministers of religion" are forbidden from running too, which might spell problems for Harold Caballeros, the founder of a large evangelical church.

One of the few candidates free of constitutional entanglements is Otto Perez Molina, a former general who narrowly lost a run-off vote to Mr Colom in 2007. Mr Perez Molina is the strong favourite: a recent poll put his support at 43%, with Ms Torres next on only 11%. In 2007 he promised an "iron fist" against crime. Since then Guatemala has become far more dangerous, as Mexican cocaine smugglers have put down roots in the wild jungle areas near the northern border. After four years of the soft-spoken Mr Colom, some Guatemalans might fancy an ex-army man to drive the gunmen back across the frontier.

Ms Torres, on the other hand, has strong support in the countryside, where the social programmes she directs have had the biggest impact. Mi Familia Progresa (My Family Progresses), a conditional-cash-transfer scheme, has improved the lot of poor indigenous women, who may fear the consequences of Mr Perez Molina's hard line on crime. The concentration of Ms Torres's backers in rural areas means that pollsters, who do not always venture into Mayan mountain villages, probably underestimate her strength.

It is too soon to make reliable forecasts about the election. The field is likely to be crowded-14 candidates, mostly from fairly new parties, stood in 2007-and the dynamics of a run-off depend on who squeaks through the first round. At the moment, many candidates are content to focus on getting on the ballot.

Haiti's presidential election

Good enough for government work

A flawed vote beats low expectations

MANY polling stations opened late. At 60 centres in and around Port-au-Prince, the capital, ballot papers and boxes, as well as ink to mark voters' thumbs, were missing for hours. Turnout was low. At least two people died in political violence.

Nonetheless, Haiti's presidential run-off, held on March 20th, was a relative success. For Gaillot Dorsinvil, the head of the electoral council (CEP), it was "a triumph for democracy." A team of observers from the Caribbean Community (Caricom) and the Organisation of American States (OAS) called it "quite an improvement in many ways on the first round."

That vote, held nearly four months ago, set a low standard. It was marred by fraud and disorganisation. And its outcome was changed in February, after a controversial review by the OAS found that second place should go to Michel Martelly, a singer-and not Jude Celestin, the chosen successor of the current president.

The run-off was a much simpler affair, with just two contestants instead of a packed field. Moreover, Mr Celestin's absence may have made the government less likely to try systematic fraud. And the electoral authorities learned some lessons from the first round. According to the OAS/Caricom observers, a "Where to Vote" publicity campaign, better-trained poll workers and monitors, and improved crowd control by the national police all helped to produce a more orderly vote.

However, Haiti's election remains far from over. Both Mr Martelly and Mirlande Manigat, a former first lady, claim to be ahead. Whoever finishes second in the preliminary results, due to be released on March 31st, is allowed to challenge them.

Even greater problems await the victor, who could have trouble establishing his or her legitimacy. Legal corners were cut before the run-off. The first-round results were not published in the official gazette, as the law requires. And according to one CEP member, only half the council has endorsed the result, although a majority may not be formally necessary for it to count. Jean-Bertrand Aristide, a former president who returned from exile on March 18th, cast a shadow over the vote's credibility by decrying the "exclusion" of his party.

Even if all these concerns can be brushed aside, turnout in the run-off was probably fairly close to the first round's 23%. Hopes for a Haitian government with a strong mandate remain faint.

Index | Asia

Disaster in Japan

Come back in ten years' time

A heroic public spirit, but a weak state



EARLY on Sunday, nine days after the port of Kesennuma was turned into a watery, blazing morgue, people are trying to get back to work. A psychiatric nurse is pushing her bike through the mud, hoping to find the main road to the hospital. She can't. It is buried beneath piles of destruction-blackened skeletons of houses, shops with their guts spilled out, burned-out ships tossed half a mile inland.

Out of one deformed structure, a shopkeeper, Kanichi Mogi, emerges with a smile on his face and a computer under his arm. "My work PC! I found it!" he shouts.

Nearer the hospital, five men in overalls are winching rubble from the shipyard where they used to make 50 aluminium skiffs a year for the scallop trade. The boats, the foreman boasts softly, are sleek, energy-saving and recyclable. But they are all gone. Instead, a rusty trawler lies on its side on the forecourt, which the workmen eye as though a mongrel dog. Before the tsunami, it floated on the far side of the bay.

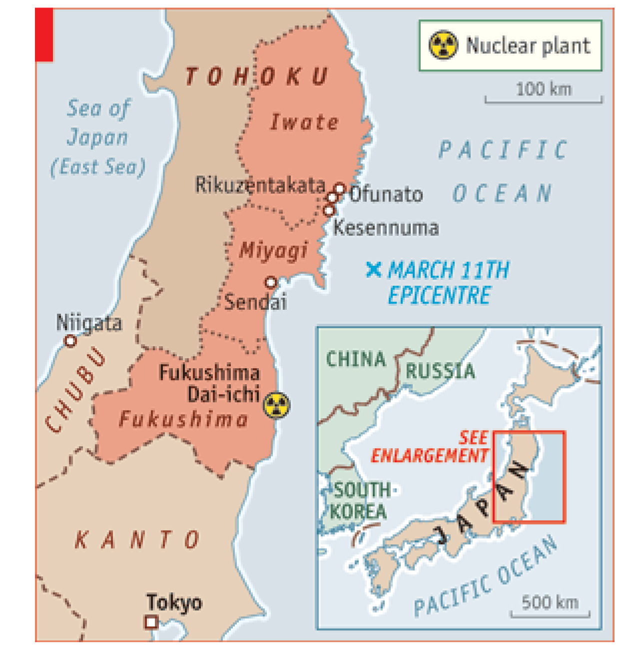
Kesennuma is on the north-eastern coast that bore the brunt of the tsunami on March 11th, leaving at least 25,600 dead or missing. With about 1,000 registered dead in the town, it fared better than nearby Ofunato and Rikuzentakata. But it was thrice blighted. After the earthquake and tsunami, fuel from the fishing boats caught fire, and for four days the port burned.

Unknown numbers of bodies lie amid the ashes, among them Chinese who worked in factories famous in Japan for processing sharks' fins. The tsunami rearranged the town: in the mud beneath a blackened hull lies a string of pearls.

Yet however much people are in turmoil, few mope. A spirit of revival is in the air. When the tsunami struck the psychiatric hospital, staff rushed 250 patients up to the roof to escape floodwaters that reached the third floor. Not even the patients panicked, says the nurse. Soon after she made it back to work on Sunday, a male hairdresser turned up offering to cut the patients' hair.

Nor are these isolated snapshots of public spirit. Almost every leg of a six-hour walk through the wreckage of Kesennuma showed people defiantly attempting to rebuild shattered lives. People expressed thanks for the solidarity the world had shown Japan. They were proud, too, that their indomitable spirit had been recognised. "Just you come back in ten years' time," was the refrain.

Still, the road out of this mess will be breathtakingly hard. That is not just because it will take many months to dig through a tangle of steel and concrete that stretches for hundreds of kilometres. And put aside the difficulties of choosing whether and how to rebuild on such a treacherous coast.



It is also because Japan has a political system so set in its ways that it has trouble adapting to creeping change, let alone emergencies on a biblical scale. Too often, the flip side of Japan's deference is an establishment able to blunder on without fear of protest and social strife.

This can hardly be missed in Kesennuma. Two men on the roof of a house were tinkering with their small boat that had been left perched by the tsunami. They were draining the outboard motor of fuel, so that they could fill up their car and drive off in search of food. For another disaster, this time largely man-made, has befallen the communities along the coast. A desperate shortage of fuel-and so food and warmth-is compounding the misery felt not only by the 260,000 homeless who have lost all, but also by those whose homes were spared.

And so people camped in refugee shelters in Kesennuma have only rice and hot soup. Red Cross staff say the soup lines are swelling with "food refugees", people who may have their homes but have no food, for the shops have run out.

The problem is bewildering. Along a 17-hour drive from Tokyo to Kesennuma, cars snaked in a line out of almost every petrol station. Hundreds of kilometres from the disaster area, restaurants and shops were shut. Petrol-pump attendants said fuel was being diverted to the tsunami-hit coast. Yet in Kesennuma, some waited a whole day and got just a 20-litre ration at the end of it.

For this, bureaucratic inflexibility is partly to blame. Shortly after the tsunami, Kouta Matsuda, an opposition senator and former boss of a nationwide coffee chain, drove a four-tonne lorry to his constituency in Miyagi prefecture, where Kesennuma is located. He had to battle with authorities for permission to use trunk roads that were closed except for emergency vehicles. He said he found plenty of food at his destination, but no means of distributing it to the hardest-hit areas.

Later he used a friend's helicopter to fly food, medicines and mobile-phone chargers to Miyagi, but was refused permission to land. He asked if he could drop the supplies at the airport, hovering just a metre above the ground. Again, he was told this was against the rules.

Japan's Ministry of Economy, Trade and Industry (METI), which handles fuel distribution, lists many causes of the fuel crisis. Nario Kadono, an official redrafted from the private sector to handle the disaster, notes that the main refinery in the disaster-struck region is crippled, as were five other refineries near Tokyo. Three of those remain out of action. Freight-train services north were suspended for a week. There was also panic buying of petrol as fears about supply mounted. Mr Kadono says METI staff are working around the clock, snatching their brief sleep in the darkened office, where lights are off to save energy.

Yet Mr Kadono acknowledges that because of increased refining elsewhere in Japan, the overall supply of fuel was never short. That makes the fuel queues all the more bewildering. Part of the problem is a law requiring oil companies to keep 70 days' worth of fuel in reserve. It took ten days to relax this to 45 days. The ministry may use only "administrative guidance" to encourage companies to release fuel; it cannot order them to do so. It has also been slow in dispatching tanker lorries along the empty highways north.

Mr Matsuda, the senator, says the government should, early on in the crisis, have declared a state of emergency to override the petty regulations that snarl up disaster relief. But he says that even now few politicians are aware of the extent of the shortages along the coast. That may be partly because they are underreported in a national media fixated on what seemed to matter most in Tokyo. When METI briefed parliamentarians this week to reassure them the fuel shortage was being tackled, everyone nodded mutely, Mr Matsuda says.

He argues that the "vertically structured" nature of governance in Japan makes strong leadership all the more important. Naoto Kan, the prime minister, has not provided this, though that is not entirely his fault. The government has had more disasters on its hands in two weeks than most governments face in their lifetime. From the start, most of the focus has been on controlling the radiation spewing out of the Fukushima Dai-ichi nuclear-power plant, 240km north of Tokyo. Leaks continued even after TEPCO, its owner, restored power to all six stricken reactors.



It's no glide from here

Mr Kan has also sought to prevent hysteria, a threat which re-emerged on March 23rd when levels of radioactive iodine believed harmful to babies were found in Tokyo's water system (though Japan's standards are unusually strict). Bottled water is now in short supply in Tokyo shops. This has added to fears about the safety of milk, vegetables and seafood found near the reactor. After government assurances, the Japanese, although obsessed with food safety, have remained calm: at lunchtime in Tokyo workers still tuck into vegetable and shrimp tempura. But on March 23rd America became the first foreign country to block imports of produce from the radiation zone. Not for the first time, America seems to be less trusting of assurances about safety than are the Japanese. Other countries have followed suit.

Throughout the nuclear saga, a dose of old-fashioned heroism has lifted the national mood. Firemen and TEPCO workers have volunteered to brave repeated amounts of high radiation to keep water jets playing on overheating fuel rods, and to fix supplies of electricity. After days of begging for help, many citizens stranded in evacuation shelters near the Fukushima plant were bused to Tokyo for refuge. Given the persistence of radiation, albeit only at low levels so far, some worry that they will never return home.

Keeping up with the crisis

For the government, the task is to get ahead of the crisis. So far events have left it always looking a day or two behind. What's more, it has been unable to pull together a crisis team, involving experts from business and elsewhere, that might give a sense of leadership on every front of the disaster. Part of the problem is crass intransigence by the opposition. Mr Kan's overtures to opposition politicians for a cabinet of national unity have so far been rejected. Meanwhile, the

opposition is still scoring points over next year's proposed budget. Legislation to finance the budget is meeting obstruction, even though more funds will be needed for disaster relief.

Even if the authorities were to take more assured control of the crisis, the short-term problems remain immense. The fuel shortage and rolling power cuts have already crippled industrial production. Morgan Stanley, a bank, reckons GDP could fall at least an annualised 6% from April to June. The car industry, which accounts for a tenth of industrial output, has stalled, partly because the disaster knocked out plants making vital micro-controllers. Toyota, which pioneered the process of running just-in-time inventory systems, idled all its domestic plants for lack of parts or resins.

The staggered power cuts are also proving ill-conceived. Interrupting power even for a few hours sometimes forces factories to shut all day, says the boss of a large chemical firm. After a shutdown it can take hours to recalibrate machinery.

For all that, quiet confidence is growing among businessmen that Japan will rebuild itself. UBS, a bank, predicts that finding energy-saving technologies to counter the potential loss of nuclear power will imbue Japan with a new creative mission.

And in Kesennuma, too, a diamond-edged business spirit is starting to take hold again. An entrepreneurial young grocer who had lost his home and shop had set up a market stall out of a pick-up truck. He was doing a brisk trade selling fruit to people who had been without fresh food for more than a week. The smile on his face looked familiar. It was Mr Mogi, the man who just a few hours earlier had rescued his precious computer, with all his customer records on it, from his flattened house. "*Gambarimasu*," he said: We'll try our best.

Index | Asia

Afghanistan and the American presence

How long?

Attempting both to leave by 2014 and stay perhaps for ever



IN A minibus it takes fully 20 minutes from the helicopter landing strip at Camp Dwyer to the base's main administrative area. Crossing this vast dusty chunk of the Helmand desert you pass a giant new runway capable of accommodating the American air force's biggest cargo planes. Out in the distance a huge plant spews out cement and aggregate for yet more construction. The facility has sprung up from nothing in the past 18 months. In theory it will be redundant in three years, when NATO combat troops are meant to have put themselves out of a job.

Afghanistan is supposedly ploughing ahead with a "transition" strategy in which the national government will be in charge of securing its entire territory by the end of 2014. The process kicked off this week when President Hamid Karzai announced those parts of the country to be handed over entirely to Afghan forces this year. No surprise that Mr Karzai has

picked the least war-torn areas. The provinces of Bamiyan and Panjshir have always been anti-Taliban strongholds. Also on the cards for handing over are the relatively calm cities of Mazar-i-Sharif in the north, Herat in the west, Mehtarlam near Kabul and Lashkar Gah in Helmand province. All of Kabul province will be transferred (the city is already in government hands), except the troublesome district of Sarobi.

That is the easy part. Finding other provinces to take charge of will get ever harder. Much depends on the Afghan army and police. They have recruited prodigiously, and NATO countries have spent much on their training. Yet discipline is poor, and the attrition rate high.

Much depends, too, on how the coalition does against the Taliban-led insurgency as the clock runs down. No one believes such a resilient and protean enemy can be completely snuffed out by 2014. In Ghazni last week a senior American official took it as a given that American troops will be patrolling the south-eastern province, now possibly the country's most dangerous, for years to come-though embedded as "advisers", admittedly, in an overwhelmingly Afghan force.

Afghan officials hold similar views. And so much is phoney in the public debate over "permanent" American bases in the country. As part of negotiations for a long-term "strategic partnership deal", Mr Karzai says America is demanding bases it can indefinitely call its own. Many Afghans believe America craves such bases to keep Iran, Russia and other regional powers in check. Although America denies that it has aspirations to lodge permanently in Afghanistan, it certainly wants bases for as long as it needs. And though Mr Karzai needs the Americans, anti-Americanism in Afghanistan feels as if it is at an all-time high, after a botched air raid killed nine boys gathering firewood.

Members of Afghanistan's parliament are divided over a permanent American presence, and religious leaders are generally against. Mr Karzai has announced that a *loya jirga*, a traditional grand gathering of the country's power-brokers, will be convened to decide on the Americans' future. National support for their long-term presence is critical for Mr Karzai. Even so, one high diplomat in Kabul reckons the president won't get it.

Index | Asia

Bangladesh

War crimes and misdemeanours

Justice, reconciliation-or score-settling?



The price of collaboration, then

IT IS almost 40 years since Bangladesh's independence and a year since a war-crimes tribunal set out to try those accused of committing atrocities during the bloodstained conflict that led to it. The tribunal is due to lay formal charges this month or soon after. Dozens of suspects live under travel bans. Even so, the country remains haunted by the terrible memories of war. The tribunal seems unlikely to achieve either justice for the victims or reconciliation for the country.

Bangladesh has said that as many as 3m people died in the conflict, though others put the figure lower. What is certain is that many thousands of civilians were killed in cold blood by members of what was then the West Pakistan army (which later became Pakistan's army). Bangladesh is seeking to put in the dock not the main perpetrators of the genocide but their local collaborators, who helped identify victims and took part in the killings. Notable among those accused of collaboration are members of an Islamist party, Jamaat-e-Islami, which formed part of a coalition government with the Bangladesh Nationalist Party (BNP) in 2001-06.

During the war, Jamaat's student wing organised a militia, called Al Badr, to support the West Pakistan army. The party denies any part in the war crimes and its leaders say they were not members of Al Badr. But last August the war-crimes tribunal issued arrest warrants for five party leaders, including two former ministers. They have not been charged with war crimes (they are being held in jail on other counts) and are due to appear before the tribunal next month. Also in the clink and awaiting possible future war-crimes charges is a senior leader of Khaleda Zia's BNP, now the main opposition. Officials say at least six more Jamaat leaders will be arrested on war-crimes charges, including the 89-year-old Gholam Azom, who led the party in 1971.

Partly because of the political implications, the war-crimes trials have run into trouble before they have even started. Emboldened by an unexpectedly good showing in municipal polls in January, the BNP has stepped up a programme of *hartal*s (protest strikes) against the government. The timing is propitious: for separate reasons, one of the government's main allies, Mohammad Ershad (a former dictator), has threatened to quit the ruling coalition.

Everyone believes the opposition would scrap the trials if it were to win the next election, which is due in 2013. And if history is any guide, it probably will win: no democratic government in Bangladesh has ever secured a second term. That gives the government less than two years to complete the trials. A formidable task.

The trials have a tiny budget of 100m taka ($1.4m). They are being held under a 1973 law which does not comply with international norms. The local prosecutors are widely seen as weak and inexperienced. In contrast, the defence team includes the counsel for the former Yugoslav president, Slobodan Milosevic, and a defence lawyer from the Special Court for Sierra Leone (which is trying Charles Taylor, Liberia's former president). The authorities have also denied entry to an American-based lawyer for one of the accused, the BNP's Salauddin Quader Chowdhury, an adviser to Mrs Zia. His

family says he has been tortured while in detention, which the government denies. The tribunal has yet to determine whether foreign lawyers may even appear to plead before it.

The chances that the trials will win international recognition appear slim. Initial enthusiasm for them among foreign governments has worn off. Many Western diplomats think the government has taken to using the courts to pursue rivals and enemies-as many say it did when it insisted recently that Muhammad Yunus, a Nobel laureate, should retire as head of Grameen Bank, a microcredit institution. The war-crimes process was supposed to produce a measure of truth and reconciliation. It has taken an inauspicious turn.

Index | Asia

China's authorities

The faithless masses

A lack of trust in officialdom triggers panic buying, and a rare ballot-box backlash



IT USED to be said that you could not believe anything in China until it had been officially denied. On March 5th, however, Wen Jiabao, the prime minister, claimed that China's "brilliant achievements" over the past five years had greatly increased the confidence of the Chinese public. Since then, even some official media have been speaking of a deep-seated "crisis of confidence" lately illustrated by a nationwide stampede to buy salt. Voices are being openly raised about the need for more trustworthy government.

Such soul-searching is not new. A similar outbreak occurred in late December and early January after the chief of Zhaiqiao village in the coastal province of Zhejiang was run over by a lorry. Many of the villagers believed he had been assassinated on official orders because of his persistent campaign against a government-backed power-plant project. Their suspicions were widely echoed by Chinese internet users and some of the country's feistier newspapers. The authorities said his death was just an accident, and tried to suppress further coverage. This month villagers showed their unabated disbelief by electing a new chief closely related to his late predecessor. Local officials also largely kept the lid on this news.

Coincidentally, Zhejiang was widely reported as the origin of the salt-buying panic in mid-March. It was triggered by a confluence of flaky rumours. One was that iodine in the salt could help prevent sickness from the radiation that citizens feared might spread China's way from the stricken Fukushima nuclear-power plant in Japan, which is more than 2,000km

from Zhejiang's coast. Another was that this radiation might contaminate seawater off China, and thus taint some of the country's salt production on the east coast.

On one day alone, some 4,000 tonnes of salt were sold in Zhejiang, eight times the normal figure. In Wenzhou, a city close to Zhaiqiao village, hundreds of people rushed to supermarkets and filled baskets with salt. Salt prices are supposed to be controlled by the government, but unscrupulous merchants marked them up several times over. When supplies ran out, some consumers turned to soy sauce and fermented bean curd, because of their saltiness. The panic spread to cities around the country, including Beijing, prompting some shops to impose rationing.

After numerous government denials of the rumours and emergency shipments of salt to affected cities, the panic subsided. Many consumers returned to shops to hand back their salt and demanded to get their money back. On March 20th the police in Zhejiang's capital, Hangzhou, said they had arrested a 31-year-old man for posting a message on the internet claiming the sea had been polluted by radiation from Fukushima and urging people to hoard salt. He was sentenced to ten days' detention and fined 500 yuan ($76).

But some newspapers have continued to question why panic should be so widespread. The boldness of some has been striking, given a sweeping crackdown on dissent during the past few weeks in China. "Why did people engage in panic buying? It is because they do not trust the government," argued an online commentary published by *Henan Daily*. Had they trusted it, the provincial newspaper said, they would have believed the authorities capable of dealing with any radiation pollution. *Legal Daily*, a Beijing newspaper, said the public's inability to make rational decisions in a crisis could stem from the government's own failure in normal times to give people freedom to judge things for themselves. The government, it said, should free citizens from their "swaddling clothes".

On March 11th *Legal Daily* also appeared to risk the ire of propaganda officials by publishing a report on the elections held two days earlier in Zhaiqiao village. The silence of most Chinese media was striking given their extensive coverage of the aftermath of the death of the village leader, Qian Yunhui. Commentaries published at the time cited the story as a glaring example of a breakdown of public trust in officialdom. Some villagers are still convinced that the government wanted Mr Qian killed in order to prevent him standing for office again.

Red banners calling on villagers not to disrupt the elections are still on display in the village. Residents say they had threatened to boycott the ballot if police were sent in during the polls. Clashes between villagers and riot police have occasionally broken out in recent years because of disputes over the nearby power plant.

On this occasion, the government backed off. The result, announced at 3am to cheers from an assembled crowd, was an overwhelming victory for the cousin of the deceased, who defeated the local government's preferred candidate. Official denials can still be ineffective, indeed counterproductive.

Index | Asia

India's corrupt politics

Singh singed

A WikiLeak is a long time in politics



Singh (turbanned) is staying put

SOMEHOW he remains a figure of unruffled equanimity. As members of parliament erupt, banging their desks and screeching with rage, Manmohan Singh sits stiff, silent and smiling. For the past week opposition parties-the Hindu nationalist Bharatiya Janata Party (BJP) lined up unusually with the Communists-have been in a frenzy, accusing the prime minister of lying to parliament and of dismally weak leadership. They have repeatedly called on Mr Singh (pictured here with the BJP's Lal Krishna Advani) to quit. For the moment, he is going nowhere.

The furore follows publication by the *Hindu*, via WikiLeaks, of embarrassing American diplomatic cables that include an envoy's account of meeting officials of the ruling Congress party before a confidence vote in July 2008. The diplomat said they showed him two chests full of cash to bribe opposition MPs-the going rate was $2.2m each. Mr Singh narrowly won the parliamentary vote, which had been called over a controversial civil-nuclear deal with the United States.

The cable seemed to confirm what many long assumed. In it, Congress members bragged about how they could even offer opposition MPs jet planes for their votes, yet fretted over how crooked parliamentarians failed to keep their word. Pressed about the affair on March 18th, Mr Singh "absolutely" denied any bribes. A lie, howled the opposition, insisting on a special parliamentary debate to discuss his statement. On March 23rd they got it, after the BJP stormed out of a session on financial reforms.

The drama will take a toll even on the serene Mr Singh. A run of corruption scandals has already battered his government. Now his political judgment looks impaired. Unedifying was his claim that, since voters re-elected Congress in 2009, it was somehow irrelevant to ask whether MPs were bribed earlier.

Yet India is unlikely to get a new prime minister soon. Congress hopes a bright showing in state elections next month-in West Bengal, Assam, Tamil Nadu and Kerala-will change the political momentum. Even if it does not, the party will shun a reshuffle at the top. Sonia Gandhi, Congress's boss, who would have been prime minister herself but for the accident of being born in Italy, is at least as responsible for the government's poor political choices. If the technocratic Mr Singh were forced out, attention would turn to her.

No obviously better prime minister stands by to replace Mr Singh. The likeliest candidate is Rahul Gandhi, Sonia's son and the scion of India's chief political dynasty. Most assume he does not want to step up until elections in 2014. Some in Congress think he will never be ready. Another leaked cable, gleefully reproduced in the press this week, passed on observations by a friend of the Gandhi family, in 2005. Rahul, the friend said, was proving to be a lacklustre leader, with "personality problems" that "are severe enough to prevent him from functioning as PM".

Index | Asia

Censorship in China

Leaping the wall

Authorities with the jitters

"THE Klingon Empire scored a couple [of] solid hits on the USS Enterprise." So wrote the chief executive of WiTopia to clients in China. The firm provides ways of bypassing blocks imposed by internet firewalls. Like others that help people in China escape internet censorship, it has recently found its services disrupted by what looks like a new kind of attack by China's censors.

Since the Arab awakening, officials have gone to lengths to stop dissidents from trying to foment similar unrest at home. Controls on people attempting to "leap the wall", as internet users describe the process of evading their censors' firewall, have got tighter. Google's e-mail service, Gmail, popular as a way of communicating without interference by keyword-sniffing filters, has also been targeted.

It marks a change of tactic by China's internet police. For years they have largely turned a blind eye to paid-for services, such as WiTopia's, which provide virtual private networks (VPNs) enabling encrypted connections to the many websites blocked by the firewall. Such VPNs are mainly used by foreigners in China, less likely to be trouble-stirrers. (Fee-free VPNs are routinely blocked.) Gmail and other non-Chinese e-mail providers have also been largely left alone. Completely blocking Gmail would raise an uproar, not least among the many foreigners in China. China dislikes being demonised abroad as a draconian internet censor. It denies disrupting Gmail.

China's new tactic, as far as experts can guess, is to make the use of Gmail and paid-for VPN services more inconvenient, but not to cut off access altogether. Google says the government is disrupting its e-mail service, while making it look as if the problem lies with Gmail. Users in China are having intermittent problems accessing the Gmail service.

VPN access has also become hit-and-miss. Some users of their own companies' VPNs, used for secure communications within corporate networks, report similar problems, says Duncan Clark of BDA China, a consultancy in Beijing. For foreign businessmen "it does make you feel much more that there is a cost of being here", he says. Chinese officials, in a state of heightened jitteriness, appear less concerned about foreign whingeing.

Index | Asia

Banyan

The worth of water

An encouraging model suggests urban Asia's water problems could be easily fixed



PIGS rootle fastidiously through the foothills of the mountain of rubbish dumped at Tuol Sen Chey on the outskirts of Phnom Penh, Cambodia's capital. A few metres away, cross-legged amid the clouds of flies and shaded from a fierce sun by a broad-brimmed hat, Tim Chan Tha is sifting and flattening used plastic bags for recycling. A widow with three children, she earns about 6,000 riels ($1.50) a day for this. She lives nearby down muddy dirt roads, in a cluster of ramshackle huts of corrugated iron, salvaged wood and tarpaulins. Ms Tha's life seems as miserable an example of urban poverty as could be found anywhere.

In one respect, however, she is lucky. Her home has a constant supply of running water, drinkable straight from the standpipe outside. Perhaps just as remarkably, she pays for it. The provider is a government-owned utility, the Phnom Penh Water Supply Authority (PPWSA), which actually makes a profit and pays tax. For its many fans in the world of development experts, its achievement in doing this while serving the very poor makes it a model-proof that all that stands between poor people and a decent water supply is mismanagement.

This is a salutary message. Perhaps two-fifths of the people in Asia's cities do not have access to piped water. Many of the rest suffer from intermittent supply and unsafe water. And, globally, the provision of water to cities is not keeping pace with urbanisation. In a message for "World Water Day" on March 22nd the United Nations' secretary-general, Ban Ki-moon, claimed that in the past decade the number of city-dwellers without a water tap in their home or immediate vicinity has risen by 114m.

Mr Ban identified the problem as "a crisis of governance, weak policies and poor management". Asit Biswas, of the Third World Centre for Water Management, an NGO, agrees: "Lack of money, scarcity, and so on-they're all excuses. The problem everywhere is bad management." PPWSA has prospered in as unpromising an environment as any. Like much of Cambodia's infrastructure, Phnom Penh's water-supply system fell into disrepair under the Khmer Rouge reign of terror from 1975, during which tens of thousands were driven into the countryside.

The isolated, cash-strapped Vietnamese-backed regime that replaced it in 1979 patched up the system. But by 1993, when a new government took office after a peace agreement and UN-supervised elections, PPWSA was producing 65,000 cubic metres of water a day, with connections to just one-fifth of city residents. Of this 72% was "non-revenue water"-given away, or lost to leakage and theft. Chea Visoth of the PPWSA recalls carrying water up to his flat from a roadside tank filled by a pipe illegally tapping the public system.

The government appointed a new boss to PPWSA, Ek Sonn Chan, who remains in charge. It now produces 300,000 cubic metres a day, has 200,000 connections and non-revenue water of less than 6%. It is financing its latest water-treatment plant through commercial borrowing, and will be one of the first companies listed on a planned new stock exchange. To achieve all this Mr Chan solved problems that dog water-suppliers across Asia. One, the physical infrastructure, was relatively easy with the help of aid agencies and development banks. Another, identifying who was using water and putting in meters to measure their consumption, was painstakingly time-consuming.

Harder still, though, was to improve the quality of the staff (in his words, "underqualified, underpaid, unmotivated and mostly inefficient"). As in public utilities in many countries, PPWSA employed too many of them-some 20 per 1,000 connections compared with about three per 1,000 now. Many were corrupt, either pocketing water tariffs or taking bribes for not charging them. When Mr Chan tried to sack one egregious wrongdoer, his well-placed relation in the municipal government objected. Mr Chan made it a resigning issue and got his way (his victim, however, says Mr Visoth, landed on his feet and now works at the electricity utility.) Nor was it easy to persuade the government and army to pay up. One senior officer's response to a water bill was to point a gun at Mr Chan's temple.

Another difficulty was to overcome the prejudice against running a public utility as a business. When PPWSA's proposal for universal tariffs went to the cabinet in 1993, it was unanimously rejected. But Mr Chan earned the trust of Hun Sen, then one of two prime ministers, and, since 1997, the only, increasingly autocratic, one. His support has helped Mr Chan show that the poor will gladly pay for water if it is cheap, reliable and safe.

Ms Tha, for example, pays about 7,500 riels a month for her supply. But much of that she recoups from neighbours. (For the 300 or so "waste-picker" families at Tuol Sen Chey, there are 113 connections.) Before 2008 and the advent of piped water, she had to pay about 20,000 riels a month to the owner of a nearby well for muddy water that had to be left to settle and boiled before it could be drunk. It left your hair feeling like cardboard after washing, her sister recalls. Even happier is their neighbour Oum Sok Ha, who specialises in recycling glass jars and bottles and so is a heavy water-user. Her daily profit has increased by 2,000 riels.

Not rocket science

More important than Miss Ha's glee are the health benefits of a good water supply. This week the UN children's agency, Unicef, estimated that in Pakistan, for example, 60m people may not have access to clean drinking water and that 100,000 child deaths a year can be blamed on unsafe water. A frequent estimate in India is that between one-half and two-thirds of hospital beds are occupied by people suffering waterborne diseases. Through the methodical, single-minded pursuit of basic common sense, PPWSA has shown how unnecessary that is.

Economist.com/blogs/banyan

Index | Middle East & Africa

Syria

Next on the list?

A wave of unrest has finally reached one of the region's most repressive regimes



FOR the past few months, as Arab autocracies have wobbled and sometimes fallen, President Bashar Assad has sat tight in his capital, Damascus, seemingly impervious to the upheavals elsewhere. No longer. Since March 18th Deraa, a city of around 100,000 people some 100km (62 miles) to the south, has been a bubbling cauldron. At least a dozen civilians were shot dead, six outside the Omari mosque on March 23rd; another three were reported to have been gunned down later that day. Protests have taken place in several other Syrian towns, including Homs, Banias, Deir ez-Zor and even, in a small way, Damascus itself. It seems likely that the regime, after several days of hesitation, will crack down hard. Discord is in the air.

Deraa has been cordoned off by troops from the rest of Syria. The city centre has been sealed. Communications and electricity have been cut. Information barely trickles out. Human-rights groups nervously recall the crushing of a Muslim Brotherhood revolt against Mr Assad's father, Hafez, in the city of Hama in 1982, which may have left as many as 20,000 dead. Most Syria watchers think the son is a lot less ruthless than the father. But he is surrounded by many of the same sort of hard security men. In the past few weeks at least 100 political activists have been rounded up; some human-rights groups put the number at more than 300.

The violence in Deraa, which is close to the border with Jordan, erupted after a group of teenagers were put behind bars for writing graffiti denouncing the local government and corruption. People in other cities marched on the same "day of dignity", but the unrest in Deraa persisted. The surrounding province is a poor farming area inhabited by conservative Sunni tribes. After four young men were shot on that first day, a vicious circle of funerals and protests began to revolve, with tribal honour demanding revenge.

Mr Assad met one of the protesters' demands by sacking the provincial governor. But his government's otherwise cackhanded reaction has merely stiffened the protesters' resolve, though they have refrained so far from calling for the president himself to go. The authorities have denied responsibility for the deaths, blaming an assortment of miscreants, from Palestinian and Muslim extremists to criminal gangs.



Mr Assad's ruling circle seems split between those who advocate repression and others proposing reform. Before the latest round-up of activists, the state media's website declared an amnesty for political prisoners; but the decision was evidently rescinded and the posting rapidly deleted. The length of the military service, hated by young Syrians, has been cut from 21 to 18 months. But more drastic demands, such as the ending of emergency law, which allows the state to arrest anyone who steps out of line, have been firmly rejected.

The shootings in Deraa suggest that the government has opted for repression. But this could backfire. Across the country calls for *karama*, or dignity, are being heard. Some protest chants have even called for revolution. Syria's Kurdish minority in the north-east, always susceptible to calls for dissent, has held back, but could join the fray if the protests spread.

Fear of sectarian strife lurks under Syria's surface. Mr Assad's power is concentrated among his own Alawite sect, a Shia breakaway minority that numbers barely 6% of Syrians. The Al Jazeera satellite channel, which has helped stir protests in other countries, has begun to air news of the unrest in Deraa. That may give the protesters across the country a fillip.

More demonstrations have been called for March 25th. If they go unheeded, the regime may breathe again. But if protesters take to the streets in large numbers and the security forces open fire, things might get out of hand-and even the durable Mr Assad's throne might start to wobble.

Index | Middle East & Africa

Violence in Gaza and Israel

Not immune

As Palestinians protest against their rulers, violence with Israel flares again



Palestinians want to get together

A BUS bombing on the Jewish side of Jerusalem on March 23rd, which killed one person and injured scores more, was the first such attack for six-and-a-half years. As *The Economist* went to press, no group had claimed responsibility. But the event followed a sudden sharp increase in the firing of rockets into Israel from Gaza, the Palestinian coastal strip run by Hamas, the Islamist movement that refuses to recognise Israel. On March 19th, in 15 minutes, Hamas and its Gazan cohorts fired 50 mortars into Israel, more than a third of the total for the past two years. Hamas may also have relaxed its

efforts to bridle other groups: Islamic Jihad recently fired several Grad rockets at two Israeli ports and at Beersheba, 40km (25 miles) away.

Presuming Gazans to be responsible for the bus bomb, Israel hit back, blacking out their territory with an aerial attack on an electricity power station. A more punishing round of violence between Israel and Palestine may be in the offing.

One reason for this is that Hamas is facing growing discontent among its own people in Gaza, where a new generation of computer-connected people, especially students and lawyers, has been venturing onto the streets to protest against the behaviour of the rulers. Many Gazans, having elected an Islamist government five years ago, now want to unseat it.

Since 2007 the Palestinian territories have been divided between Hamas in Gaza and Fatah, the Palestinians' oldest nationalist movement, headed by Mahmoud Abbas, in the West Bank. Too busy vying with each other to confront Israel, which occupies most of their land, they have sought to consolidate their holds on their respective domains by scrapping parliament and ruling by decree.

Not everyone has taken kindly to this new authoritarian yoke. Inspired by protests against other despots, Palestinians in both territories have been crying for "revolution until we end the division". In Gaza and the West Bank protesters champ for an interim government of the young, aligned to no party, to be followed by elections in both bits of Palestine.

Under the watchful eye of his Western patrons, Mr Abbas's security forces have generally stopped beating up protesters and have let them erect tents in the West Bank's main towns. Hamas has shown less tolerance, fearful lest a turnout of thousands, including many women and a few rappers, posed a secular challenge. "Hamas is worse than Mubarak, because it governs in the name of God, not the people," says Ayman Shaheen, a professor at Azhar University, Gaza's last remaining college outside the movement's control.

At first, Hamas relied on its own considerable popular base. On March 15th it swamped a non-party rally with green flags, its chosen colour. But this show of unity was short-lived. Facing a barrage of stones, the protesters fled to a neighbouring square, only to be mauled by a mob wielding knives, clubs and chairs. Their tents were burned down and the square cleared within minutes. Female students claim they were groped by bearded bully-boys rummaging for mobile phones with video footage of the beatings.

Hamas's recourse to the brutality it had decried in opposition smacked of a loss of confidence. For the next few days, thugs in riot-gear thumped students trying to reassemble and ransacked foreign news bureaus, clubbing reporters and smashing their gear. Hamas's Internal Security Intelligence service hauled hundreds to its headquarters. Some were stripped of their computers and phones, others were beaten with electric rods and hooded in foul-smelling bags. Mr Shaheen said he was blindfolded and repeatedly smacked about the head.

Even so, Hamas was frustrated in its efforts to quell the protests, which were generated more by an informal network of like-minded people than by a movement with a leader. The violence kept people off the streets. Businessmen shied away from helping the protesters. Wedding organisers refused to lend them loudspeakers. But a few hundred protesters continued to wait outside the International Committee of the Red Cross, the UN, and the home of Gaza's prime minister, Ismail Haniyeh, at the risk of being thumped with batons.

The protests may have prompted Hamas to unleash its mortar barrage at Israel, to deflect attention from its own woes. "It doesn't normally respond with dozens of projectiles when Israel kills two men," says Mkhaimar Abu Sada, a professor at Azhar University and friend of Mr Shaheen, referring to an Israeli raid on a training camp in Gaza the day before.

Three days later, Israel struck back, killing nine Gazans, four of them civilians playing football, and threatened another war. So Hamas was able to remind Gazans who their real enemy was. Fearful of being dubbed collaborators, the protesters have called off rallies until the end of the month.

Emboldened by Hosni Mubarak's fall in Egypt, Hamas is counting on his successors to open Egypt's border with Gaza, to reduce dependence on Israel and Mr Abbas, who together control Gaza's overland trade. Whereas Mr Haniyeh has invited Mr Abbas to Gaza, to mollify the protesters and show willing to seek reconciliation, his military wing displays scant interest in sharing power. At least in the short run, expect violence, across the board, to rise.

Index | Middle East & Africa

On his way out

But who will replace the president?

IT CANNOT have been a happy birthday for Yemen's president, Ali Abdullah Saleh, who is probably 65. The resignations of close allies came in thick and fast on March 21st. Generals, ministers, tribal leaders and at least a dozen ambassadors have all abandoned the increasingly isolated president to side with the protest movement that has been calling for him to go. After more than three decades in charge, Mr Saleh cannot hold on for much longer. The question is who comes next.

After his security forces shot dead at least 50 peaceful demonstrators who had gathered for Friday prayers outside the opposition camp in Sana'a, the capital, on March 18th, Mr Saleh declared a month-long state of emergency. He says a civil war will start if the protesters do not give up. But the strife will worsen if he stays on.

The security forces are splintering after a dozen of their leaders, including the country's most senior commander after Mr Saleh, Major-General Ali Mohsen al-Ahmar, a kinsman and long-time ally of the president, came out in support of the opposition and promised that they would protect the protesters.

Ali Mohsen, as he is known, is a controversial figure with links to jihadists and smuggling rings, but he still commands the loyalty of many soldiers. They and their tanks are now guarding the camp the protesters set up in the streets outside the capital's university. But Mr Saleh's son, Ahmed, still commands the elite Republican Guard, and three of the president's nephews hold powerful posts in the security service. Their troops and tanks are guarding the presidential palace and have been sighted outside the central bank and the defence ministry. Mr Saleh said last month he would defend his regime "with every drop of blood". As the armed forces split, that could mean using the Republican Guard and special forces against the regular army and the protesters.

Yemen's powerful tribes are taking sides too. On March 21st Sadiq al-Ahmar, who heads the Hashid tribal confederation, the most powerful in the country and the one to which the president's tribe belongs, declared his support for the protesters. A month earlier, his brother, Hussein, a member of the ruling party, resigned to throw in his lot with the demonstrators. Others, however, still back the regime.

Mr Saleh continues to talk about mediation and dialogue with the demonstrators. On March 21st he dispatched his foreign minister, Abu Bakr al-Qirbi, to Riyadh, the Saudi capital, to ask the Saudis to back him. The next day he said he would step down at the end of year but the opposition immediately rejected that offer. Mr Saleh has said he would go several times before but has reneged each time.

With al-Qaeda active here and there in Yemen, Western leaders, watching anxiously as Mr Saleh's regime unravels, have deplored the shooting on March 18th. Alain Juppe, France's foreign minister, has called for Mr Saleh to go. Barack Obama has so far been more reticent, refusing to call for his departure. The Americans are worried lest Mr Saleh's sudden exit creates a security vacuum. Some Yemenis grumble that Mr Saleh has exaggerated the threat from al-Qaeda to extract more military aid out of the Americans.

Yemen's student-led opposition says it is ready to step into the breach when Mr Saleh goes. In letters addressed to Mr Obama, Britain's David Cameron and other leaders of the European Union, they have outlined plans for a new constitution to be written while a post-Saleh provisional government runs the country.

Another big demonstration is due on March 25th. Mr Saleh may have to shoot-or bow out. And even if the students prevail, they may have to defer to Yemen's real power brokers, the military, tribal and religious leaders, such as Mr Mohsen and the al-Ahmar family, whom Mr Saleh has struggled to control. The traditional leaders would have to endorse a new constitution. And if the youth movement ousts Mr Saleh, they will not give up their clout and status without a fight.

Yes they can

Voters endorse a flawed but necessary set of constitutional amendments



"FOR the first time in living memory we won't know the result beforehand," said a liberal campaigner, as he prepared to vote in a referendum on Egypt's constitution. In the event, on March 19th, more than 14m said yes versus 4m who said no. The turnout of 41% of the country's 45m eligible voters was the highest on record. It was also the first time for nearly six decades that Egyptians had been offered a genuinely free choice on any public issue.

The referendum marked a big step towards sending the army, which has been running Egypt with broadly popular consent for the past five weeks, back to barracks. A general election was proposed for June, though the date may slip, followed by a presidential one, probably in August or September. If the new president or a majority of members of parliament so desire, a constituent assembly of 100 or so people will get the job of writing an entirely new constitution, which could be enacted within a year. With luck, Egypt will then be well on the path to democracy, albeit with many a pitfall along the way.

The amendments endorsed in the referendum include limits of two terms of four years each for Egypt's next president and an easing of restrictions on competing for the post, though candidates may still not have dual nationality nor, more oddly, may they be married to a non-Egyptian. Other amendments decree that the next president must appoint a vice-president within 60 days of taking office-something Hosni Mubarak studiously failed to do until the last few days of his 30 years in power. Elections will be overseen by judges, independently of whatever party is in power. And a clutch of counter-terrorism laws that were widely abused under Mr Mubarak will be revoked.

So why did Egypt's secular liberals and left-wingers, leading lights in the mass demonstrations that toppled Mr Mubarak, vote overwhelmingly against? In a televised debate sponsored by a Qatari foundation and held in English in the upmarket American University of Cairo, 84% of the audience said no. Many objected to a lack of openness and the haste with which the amendments had been written by a faceless committee chosen by the equally faceless 19-man Supreme Military Council now ruling Egypt. Others complained that, though you might disapprove of some clauses and approve of others, it was a take-it-or-leave it package.

But another big reason was that the diffuse democracy movement that emerged from Tahrir Square has not had time to form a coherent political front or to set up solid party structures. As a result the speedy timetable laid out in the new deal may help the Islamists of the Muslim Brotherhood, among others, to dish secular liberals and other fledgling parties in any early poll.

The Muslim Brotherhood did indeed endorse the amendments. So did notables in the long-established liberal Wafd party and the rump of Mr Mubarak's disgraced but still surviving National Democratic Party. The size of the yes vote suggests that these old forces may hold quite some sway. The groups that performed so brilliantly on Facebook and Twitter have so far looked amateurish, unfocused and ill-organised as they try to transform themselves into parties equipped to take on the old guard.

In any event, the secular middle class, especially in Cairo and Alexandria, Egypt's second city, remains deeply wary of the Brotherhood, even though it has gone out of its way to present a tolerant, undoctrinaire face. "The Turkish model [of government] is not far from our ideology," says Muhammad Abbas, a prominent young Brother. The movement hopes, he says, to get a third of the seats in the new parliament, perhaps contesting 40% of them. It will not put up a candidate for president. And he says he wants a broad alliance, including secular socialists, liberals and even Christians, to form a new government.

Yes, say the liberals, that is the image of "the smiling Brother", Essam el-Eriani, a ubiquitous spokesman who is a model of decorum on the rostrum. But delve into the conservative villages in the Nile delta, they say, and you see a different picture. There, say the liberals, the Brothers have little concept of democracy or pluralism, and are haughtily hostile to Copts (Egypt's main Christian sect, numbering 8-10%) and other minorities. Secular-minded Egyptians recall that for the first three decades since its founding in 1928, the Brotherhood espoused violence in pursuit of its holy writ; more recently, many Egyptian jihadists started out as Brothers.

In sum, many Egyptians still feel that the Brotherhood cannot be trusted to take part in a secular, open, tolerant society. Given the suffering inflicted on the movement over the years, with many thousands of them locked up without trial and tortured under Mr Mubarak, most secular Egyptians think they should be given a chance to prove their good intentions. But they feel queasy about them all the same.

What frightens many Egyptians even more is the emergence of true radicals, thousands of whom have been freed from prison, including jihadists and Salafists, who hark back to a fiercely puritanical interpretation of Islam, insisting that women should be veiled, infidels subject to special taxes, and the harshest version of *sharia* law imposed, including stoning for adultery and amputation for theft. Such fundamentalists are now merrily riding along behind the cloaks of the Muslim Brothers.

Many Egyptians are still worried about the army too. Since forming the supreme military council to oversee the government, it has signally failed to explain itself to the people, bar issuing a handful of decrees. Field-Marshal Muhammad Tantawi, the 75-year-old transitional head of state, who was minister of defence for the previous 20 years, has kept out of the limelight. Though the replacement of an air force general by a civilian as prime minister on March 3rd was widely applauded, no one seems to know who is really running the show or who is accountable to whom. There is a sense of vacuum.

On March 9th some 170 demonstrators who had insisted on staying in Tahrir Square were arrested by the army. Many of them were tortured. The army authorities, who have given themselves the right to try alleged thugs (known as *baltageya*) in military courts, have since proved unable or unwilling to explain what happened or to respond properly to the inquiries of human-rights monitors, who have also complained that the mainstream Egyptian media have shamelessly ignored the episode, either under military duress or through an ingrained habit of self-censorship.

The army, in sharp contrast to the police, who have gingerly returned to the streets, is still fairly popular. But the generals are far from being natural democrats, which is perhaps why many Egyptians voted for the referendum, despite the shortcomings of the amendments, to get the army out of the way. But few people are certain who or what will come next.

Index | Middle East & Africa

South Africa's foreign policy

All over the place

South Africa is joining the BRICs without much straw



"WE SAY no to the killing of civilians!" Jacob Zuma, South Africa's president, thundered on March 21st. "No to the foreign occupation of Libya or any other sovereign state!" The crowd, mainly supporters of the ruling African National Congress (ANC), roared back its approval. Theirs, after all, was the country of human rights, a beacon to the world, as their first black president, Nelson Mandela, had proclaimed. Just four days earlier, however, South Africa had voted for the UN Security Council resolution calling for "all necessary measures" to be taken to protect Libyan civilians under threat, including the imposition of a no-fly zone. Did Mr Zuma believe this could be done without recourse to force? He is not that naive.

These days South Africa's foreign policy swings back and forth. Under Thabo Mbeki, Mr Zuma's globe-trotting predecessor, it seemed to have an overarching aim, at least on paper: the promotion of an "African renaissance", even if that meant ignoring the human-rights violations of some of South Africa's allies. But now, as Mr Zuma flits ever more energetically around the world, charming everyone as he always does, it is hard to find a pattern to his policies. "None of it makes any real sense," says Tom Wheeler, a former South African ambassador and now a research fellow with the South African Institute of International Affairs: "There's no substance, no coherence."

In fact, South Africa often appears to be pursuing two contradictory sets of values. At one moment, Mr Zuma is upholding the principles of national sovereignty and non-interference dear to despots around the world. At the next, he insists that his "primary objective" is to contribute to the ideals of democracy, human rights and justice. The result is a mishmash of unpredictable responses to apparently similar situations in different countries.

In the face of the recent uprising in Egypt, for example, Mr Zuma joined the international chorus demanding the resignation of Hosni Mubarak, the president. But in the face of dreadful factional violence and impending civil war in Cote d'Ivoire, South Africa sat on the fence for months, refusing to accept Alassane Ouattara's internationally recognised victory in November's presidential elections until earlier this month, when it endorsed the call of the peace and security committee of the African Union (AU) for the defeated incumbent, Laurent Gbagbo, to step down. In Swaziland, Africa's last absolute monarchy, right on South Africa's doorstep, Mr Zuma remains obdurately silent over the violation of civil rights and the suppression of pro-democracy protests, yet recently recalled his ambassador to Israel in protest against its treatment of Palestinians.

The same contradiction is seen in South Africa's handling of Myanmar and Zimbabwe. In Myanmar Mr Zuma did not hesitate to condemn November's rigged elections and call for the release of the opposition leader, Aung San Suu Kyi. Yet he refrains from peeping a word of public criticism of Zimbabwe's ageing dictator, Robert Mugabe, despite a string of rigged and robbed elections, killings, torture and other state-sponsored violence. Last October South Africa appeared to change its studied neutrality on Iran's nuclear plans, voting for UN sanctions on Iran, only to claim that it had actually

intended to vote against the measure. And when the jailed Chinese dissident, Liu Xiaobo, was awarded the Nobel peace prize in December, South Africa was one of the few countries to refuse to congratulate him.

Next month South Africa is due to be formally inducted into membership of the BRICs, a club of regional power brokers embracing Brazil, Russia, India and China, which have recently shown a desire to use their combined size and economic might-together they account for 40% of the world's population-to counter the West's global dominion. They also want to reform such institutions as the UN Security Council and the World Bank.

Will South Africa-its GDP, population and land mass all dwarfed by the BRIC giants-find itself obliged to align its foreign policy more with its new peers, notably Russia and China? Perhaps not, judging by its recent vote in favour of the Libyan no-fly zone. The other BRICS (with a capital S), as the enlarged group will be known, all abstained. Perhaps, after Mr Zuma's latest exclamation, South Africa will again claim it had really meant to vote against the resolution.

Index | Europe

Portugal's government collapses

The next domino

The resignation of Jose Socrates as prime minister is likely to lead not only to an early election but also to the next euro-zone bail-out



IN IRELAND a bail-out by the euro zone's rescue fund helped force the government to call (and lose) an early election. In Portugal an early election may force the government to accept a bail-out. The question is: which government?

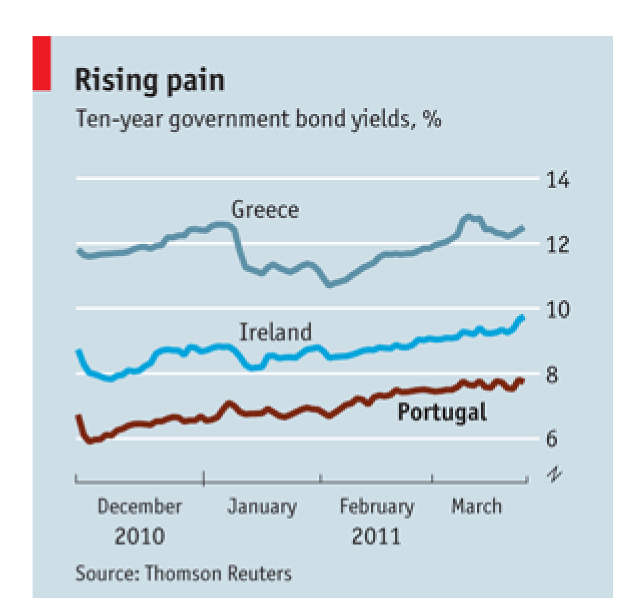
This week's defeat of the minority Socialist government led by Jose Socrates in a parliamentary vote on austerity measures-the fourth package in 12 months-triggered his prompt resignation as prime minister. But it also created a political vacuum in which nobody may have enough authority to negotiate any bail-out.

Few doubt that Portugal is close to the moment when it has no alternative but to seek help from the European Financial Stability Facility (EFSF), the euro zone's bail-out fund. But economists say the crisis increases the chances that Portugal will need European Union funds within days. The finance minister, Fernando Teixera dos Santos, said that a failure to pass the austerity measures would create "additional difficulties...which I doubt we will be able to bear on our own." Announcing his resignation, Mr Socrates predicted that an IMF/EU bail-out would result in even harsher measures than those that he had tried to push through parliament.

Anibal Cavaco Silva, Portugal's conservative president, will now begin meetings with political parties in an effort to fill the void. In the two or three months before a new election can be held, he might try to put together a "grand alliance" of the main parties. Or he could appoint a transitional, non-partisan, "technical government". A third option is to keep Mr Socrates as a caretaker with limited powers.

Gilles Moec, head of European economic research at Deutsche Bank, suggests a "technical cabinet" would be better placed to negotiate a bail-out. But he argues that the Irish experience will probably deter other European countries from cutting a deal with a government that now lacks the clear backing of its parliament.

Mr Socrates's measures, which included a special tax of as much as 10% on pensions above euro1,500 ($2,100) a month, were drafted with input from the European Central Bank and the European Commission as an "additional guarantee" that Lisbon would meet its fiscal targets. But Pedro Passos Coelho, leader of the centre-right Social Democrats (PSD), the main opposition party, refused to back them. The PSD has a clear lead in the opinion polls. And unlike Mr Socrates, who has fiercely resisted a bail-out, Mr Passos Coelho is ready for one. Antonio Garcia Pascual of Barclays Capital suggests that the PSD might feel it has little to lose from a bail-out if the blame falls on Mr Socrates's government instead.



Portugal's bond yields have already soared higher than at any time since the country joined the euro (see chart). Yet Emilie Gay, an economist with Capital Economics, notes that Portugal's budget deficit is lower than in most other troubled euro-zone economies. The country's most serious challenge, she says, is to avoid "another lost decade" of low growth. Since the start of the euro in 1999 Portugal has been among the slowest-growing economies in the club, despite being its poorest member.

Ms Gay concludes that Portugal is likely to become the third peripheral euro-zone country to need a bail-out. Yet to overcome the deep-seated structural problems that have held the economy back will take not just rescue money but ambitious reform as well. The country's need to issue debt is only euro2 billion or so a month. Although that is small by most measures, and the government may have enough cash to meet redemptions in April, Portugal could struggle to last until June. The markets are expecting action long before then. In mid-March Moody's, a rating agency, downgraded Portuguese debt.

Portugal's political turmoil and its urgent need for a rescue will now loom large at an EU summit this week, which may put off a deal to expand the bail-out fund and fail to sign a new "pact for the euro". If EU leaders have to bail out Portugal, they may find they have already used quite a big chunk of their fund. Judging by experience, the markets will swiftly move on to attack the Spanish. The bail-out fund can quite easily finance Portugal. It is not clear that it could deal with Spain.

Index | Europe

France's war president

Sarkozy relaunched

Will a popular Libyan adventure restore the president's fortunes?



"LET'S savour this moment when France overturned history," cooed a Sunday newspaper. "France has pulled off a masterstroke," chimed in *Liberation*, a leftish daily. The French intervention in Libya was universally applauded, in a sign of cross-party unity not seen since they opposed the 2003 invasion of Iraq. Dominique de Villepin, a Gaullist rival to President Nicolas Sarkozy, said France had "lived up to its ideals". Even Jean-Marc Ayrault, the Socialists' parliamentary leader, applauded his country's "decisive action" and "commitment to the Libyan people".

As the television beamed images of fighter planes taking off from Corsica and the aircraft-carrier *Charles de Gaulle* steaming out of Toulon, there was a sense of restored pride but also giddiness at the abrupt turnaround in France's policy on north Africa. Only two months ago the French offered another Arab autocrat, in Tunisia, help in containing street riots. Earlier this month Mr Sarkozy's impulsive decision to recognise Libyan rebels surprised even his new foreign minister, Alain Juppe. Now France has put an air force behind its fine words, with military strikes against an Arab leader that would once have been unthinkable. So far, 66% of the French approve, according to one poll.

Will this be enough to lift Mr Sarkozy from his record low level of popularity? The president has sunk so far in public esteem that many praise his decision but doubt his motives. Mr Sarkozy faces a tough presidential election next year. With the far-right National Front resurgent, recent polls suggest that he might struggle even to make it into the second round. Humanitarian considerations have hardly guided his foreign policy so far, as Bernard Kouchner, his first foreign minister (and a human-rights advocate), found. Indeed, this week the French were flying the same Rafale fighters over Libya that they had recently been trying to sell to Muammar Qaddafi. If not for electoral gain, some ask, how to explain Mr Sarkozy's zeal for military intervention in the name of a "universal conscience"?

It is hard, when it comes to this mercurial president, to disentangle conviction from opportunism. His personal interest in playing the unifying moral leader, doing the right thing in the name of timeless French values, is evident. He leads as much from instinct as from calculation. And there has been plenty of improvisation along the way, not least when Bernard-Henri Levy, a celebrity philosopher who had visited eastern Libya, brought rebel representatives to the Elysee palace.

But, for once, Mr Sarkozy's personal and France's national interests may coincide. Just across the Mediterranean from Libya, France feels exposed to the immigration a protracted civil war might prompt. Its credibility in the French-speaking Maghreb, its traditional sphere of influence, is at stake. Moreover, much of the French initiative has been led by Mr Juppe, who is not a close political ally of Mr Sarkozy. A former prime minister, and foreign minister in the 1990s, he brings experience and authority to the job. Initially hesitant about going into Libya, he has acted as a useful counterweight to the impetuous president, who has in turn given him space to speak for France. Mr Juppe went in person to plead France's cause at the UN, the only national minister to do so.

Mr Sarkozy has taken a gamble with this mission, which has no clear endgame and which could yet turn out to be messy. In a parliamentary debate this week the government said it had already succeeded in preventing a bloodbath in Benghazi. The real trouble for Mr Sarkozy is that, even if voters approve of the Libyan operation, they do not yet approve of him. In the first round of cantonal elections on March 20th, the day after French jets struck, his party scored just 17%, only two points ahead of the National Front.

Index | Europe

Germany's embattled chancellor

Angela at bay

A nervous Angela Merkel contemplates further electoral setbacks



PANICKY, desperate, clumsy: these are not words normally associated with Angela Merkel, the German chancellor. She has a doctorate in physics and is a grandmaster of political chess, always many moves ahead of her rivals. But recently she has looked more impulsive than considered. She reacted to Japan's nuclear disaster by abruptly switching off seven of Germany's 17 nuclear plants. On Libya, Germany joined China and Russia by abstaining in the UN Security Council vote for military action. Germany seemed to have reverted to its post-war habit of shirking global responsibilities. "I am ashamed of my country's behaviour," wrote Klaus Naumann, a former army chief. Joschka Fischer, a (Green) former foreign minister, was hardly more sympathetic.

Few things jangle German nerves more than nuclear insecurity and the idea of military forays abroad. It was awkward for Mrs Merkel that both came up just as three states were poised to hold elections that could be decisive for her Christian Democratic Union (CDU) and its coalition partner, the Free Democrats (FDP). Saxony-Anhalt, in eastern Germany, voted on March 20th. The results reassured the CDU: it will probably continue in a "grand coalition" with the Social Democrats (SPD). Turnout rose and the far right fell short of the 5% threshold for seats in the legislature. But the FDP also failed to win seats, a worrying omen for Mrs Merkel.

More is at stake on March 27th. In Rhineland-Palatinate the SPD's Kurt Beck is likely to remain premier. But in Baden-Wurttemberg a revolution could be in the making. The CDU has ruled this heartland of Germany's mighty *Mittelstand* without interruption for almost 58 years. Yet the polls point to a breathtakingly close contest, with several possible

outcomes. The Greens could end up leading a state government for the first time, with the SPD as junior partner. That would be startling anywhere: in Baden-Wurttemberg, an economic role model, it would be sensational.

Stefan Mappus, the state's premier, has had a short and turbulent tenure. He took office last year after Mrs Merkel sent his predecessor, Gunther Oettinger, to be energy commissioner in Brussels. Protests against an ambitious rail project in Stuttgart, the capital, have buoyed the Greens. A pugnacious conservative, Mr Mappus is the CDU's loudest advocate of nuclear power. That is now a problem: nuclear power is the most pressing issue for 46% of Baden-Wurttemberg's voters, according to one poll. Unlike in North Rhine-Westphalia last May, the European summit on the euro, just before the vote, matters less.

Mrs Merkel threw Mr Mappus a lifeline: a "moratorium" on the decision to let nuclear plants operate for an extra 12 years (they had been supposed to close by 2022). She had argued for the extension as a low-cost "bridge" to a future based on renewables. But the Japanese disaster was a "turning-point for the entire world" (see article). Hence the three-month moratorium, which will be used to check the safety of the plants and debate their future.

Opposition politicians accuse Mrs Merkel of trickery. She will switch the plants back on when the moratorium expires, they claim, probably wrongly. The CDU president of the Bundestag questions the legality of the moratorium. Some three-quarters of voters see it as blatantly political. Mrs Merkel "had to react" to Japan, says Gerd Langguth, a political scientist at the University of Bonn, but the moratorium seemed panicky. And it may not save Mr Mappus. More important for Mrs Merkel is that "no one can say Berlin is responsible" if he loses, says Mr Langguth.

On Libya, she let her foreign minister, Guido Westerwelle, who is also head of the FDP, take the lead. The FDP risks being evicted from the legislatures of Rhineland-Palatinate and (for the first time) Baden-Wurttemberg. That could cost Mr Westerwelle his party leadership. He might have thought he could not go wrong by opposing a "war from which we may not be able to free ourselves for years". But Germans fear isolation too. Many wonder why Germany could not have supported the UNSC resolution without committing troops or aircraft. In any case Libya, unlike nuclear power, is not a political issue for the states.

Mrs Merkel's panicky electioneering may one day seem wiser than it does now. The energy debate could generate a wider consensus than the unpopular decision to extend the nuclear deadline. Germans may forgive the Libya abstention if the war goes wrong. But this will be too late for Baden-Wurttemberg, where regime change would hurt Mrs Merkel (and further weaken her in the upper-house Bundesrat). The last thing she needs is to be the chancellor who lost the CDU heartland.

Already some in her coalition grumble that she has lost her knack of winning elections. But she will surely survive as chancellor. The CDU has no serious contenders to replace her. Karl-Theodor zu Guttenberg, star of the CDU's Bavarian wing, has been felled by a plagiarism scandal. The coalition parties have no interest in a premature break-up and early elections. Even if they are defeated in Baden-Wurttemberg, the CDU and FDP will limp on in Berlin. The question is whether they will be able to do any more than that.

Index | Europe

Serbia and Kosovo

Dreams of Brussels

Serbia hopes its talks with Kosovo will boost its European Union aspirations

VLADIMIR PUTIN, the Russian prime minister, paid a flying visit to Belgrade this week. He met Serbian bikers at a football match sponsored by Gazprom and talked up Russian investment. Mr Putin's visit will make Serbia stronger, boasted Vuk Jeremic, its foreign minister. Yet Russia is far away and Serbia's main goal is to win the status of candidate to join the European Union. The European Commission will pronounce in the autumn and EU leaders will decide in December, when Montenegro also hopes for approval to open membership talks.

The EU decision is crucial for Serbia's increasingly unpopular government. The ruling Democratic Party of President Boris Tadic hopes candidate status might boost its chances of winning the general election it may call early next year. The drive for candidate status also explains why Serbia is acting in such an exemplary fashion in EU-sponsored talks with Kosovo that began in Brussels earlier this month. Kosovo declared independence in 2008 and is recognised by 75 countries. The idea of the talks, says Robert Cooper, the EU official in charge, is to solve problems that can be solved. That means technical matters such as electricity, number plates and travel documents.

The talks will not lead to the recognition of Kosovo, promises Borko Stefanovic, who heads the Serbian team. Yet Mr Stefanovic says that, with goodwill, much can still be done. For example, aircraft flying to Kosovo might be allowed to fly over Serbia, which they cannot do now. Or a deal could be struck on customs stamps, because at present exports from Kosovo cannot go to or through Serbia. Yet Vladimir Todoric, a Serbian analyst, says that the government will give away as little as it can without losing its chance of candidate status. Few agree with right-wingers who think that smiling at Edita Tahiri, leader of the Kosovar team, is tantamount to treason. Still, the Serbian government has so far played down the talks to avoid controversy.

Not so the Kosovars. Serbia was well prepared, but Kosovo was not. It had no government until two weeks before the talks began. Ms Tahiri was told she would lead them only days before. The talks started without parliamentary approval. Opposition parties and civil activists are vocally against, believing the government was cajoled because the EU wants to help Serbia win candidate status—and Kosovo may get nothing.

Mr Cooper says the only way to win over the Kosovars is to produce results. Yet some fear that the partition of Kosovo may somehow be put on the table. The EU has ruled this out, so it will not formally be part of the negotiations. Moreover, now the talks have begun, the Kosovars are locked in: they would hand Serbia a huge diplomatic victory if they walked out. Their only consolation might be that, even if Serbia wins candidate status, the EU enlargement process is so bogged down that actual membership will be many years off.

Index | Europe

Charlemagne

A force for good

France and Britain are leading the intervention in Libya. Rightly so



WHETHER it was out of rashness or conviction, Nicolas Sarkozy has certainly acted boldly. The French president was first to recognise the "national council" in Benghazi, first to talk of the need for air strikes and first to send planes to repel Muammar Qaddafi's marauding forces. It was easily the biggest diplomatic and military moment of his presidency. So much for the old American canard about cheese-eating surrender monkeys.

Mr Sarkozy did not act alone, of course. His alliance with Britain's David Cameron was essential. And America, belatedly, played an indispensable political and military role. Yet this action differs from the previous pattern of America leading and Britain following, with France opportunistically backing the Americans (Iraq, 1991) or opposing them (Iraq, 2003). This time America wants to stand back. So for the first time since the 1956 Suez crisis, Britain and France are at the forefront of military action in the Middle East. This is not to say they are reverting to old-style imperialism; both are too enfeebled for that. The British and French know they must act together to exert any influence. And to do that, they must overcome the legacy of Suez.

In 1956 the two colluded with Israel to attack Egypt and retake the Suez Canal, which had been nationalised by Gamal Abdel Nasser. Anthony Eden, the British prime minister, saw him as a new Hitler. The French resented his support for resistance to their rule in Algeria. America considered the assault as an act of imperialism that would inflame the Arab world and benefit the Soviet Union. It forced the invaders to withdraw, granting Nasser a victory, bringing about Eden's downfall, hastening decolonisation and ushering in an era of American dominance in the region.

Britain and France, whose alliance dated to the *entente cordiale* of 1904 and two world wars, drew opposite lessons from this humiliation. The British resolved to cleave to America. Even their nuclear missiles were provided by the Americans. France chose greater autonomy. It sought to build up the European project as a counterweight to America and to create its independent nuclear *force de frappe.* A decade later it withdrew from NATO's integrated military command.

As two medium-sized European powers, both with permanent seats on the UN Security Council and a legacy of empire, Britain and France are at the same time natural partners and natural rivals. These days, they are being pushed into greater co-operation. One reason is Mr Sarkozy's decision to return France fully to the NATO fold. Another is the weakening of French demands for the EU to develop its own military capability. Finally, the rising cost of advanced weapons is driving both to seek defence savings. In November Britain and France signed a defence pact to share capabilities, including research on nuclear warheads and the operation of aircraft-carriers. Welcome to the *entente frugale*, said the wags.

It is striking how in the European-led intervention in Libya the two big Europe-based institutions, NATO and the EU, have so far been left on the sidelines. This is in part because both have members who are sceptical or even hostile to the Libyan adventure, notably Germany and (in NATO) Turkey. In part it is because old habits die hard, even in the heat of military action in Libya. France resisted Britain's wish to see NATO take over the mission. Britain opposed French attempts to get the EU to lead a naval force to enforce the arms embargo. A compromise is emerging: NATO will provide military co-ordination, but politicians from the allied parties will give political direction (see article, article). The EU may then use its embryonic military tools to offer humanitarian aid.

Given such cacophony, one begins to sympathise with the unilateralism of Donald Rumsfeld, the American defence secretary during the second Iraq war, who decreed that "the mission determines the coalition". But as America has found in both Iraq and Afghanistan, institutional backing helps to maintain a coalition. Italy, among others, demanded NATO leadership. Another timeless lesson is the benefit of securing UN and Arab support. "Suez? This is different. In Suez, we did not have the Arabs," says Alain Juppe, the French foreign minister.

The rest is silence

The Libyan crisis also punctures some inflated hopes about other European countries. Italy, the former colonial power, was hopelessly out of touch at first and remains a minor player. The east Europeans have been quiet. For all the talk of Germany emerging as a "normal" power, liberated from post-war guilt, it remains handicapped, with the pacifist impulse still extremely powerful. Germany wanted sanctions against Colonel Qaddafi, but balked when they failed to stop him. It would not even let its ships enforce the arms embargo on Libya. Germany's aversion to the use of force, even by its allies, must raise new doubts about its demand for a permanent seat on the UN Security Council.

Libya has equally exposed the absurdity of the dream of a European army. What good would this be if Germany (or some other peacenik country) refused to allow it to protect people against a tyrant on Europe's doorstep? So the use of military force will remain a matter largely for those willing and able to exert it. That means Britain and France will continue to dictate the terms of European military engagement. They account for nearly half of Europe's total defence spending and more than two-thirds of what it spends on military research and development. The more Britain and France can share

resources, the better for Europe's military power. Success in Libya could spur them to deeper integration; failure might push them apart again. The stakes in Libya are obviously high for the future of the Libyan people. But spare a thought for the future of European defence co-operation.

Economist.com/blogs/charlemange

Index | Britain

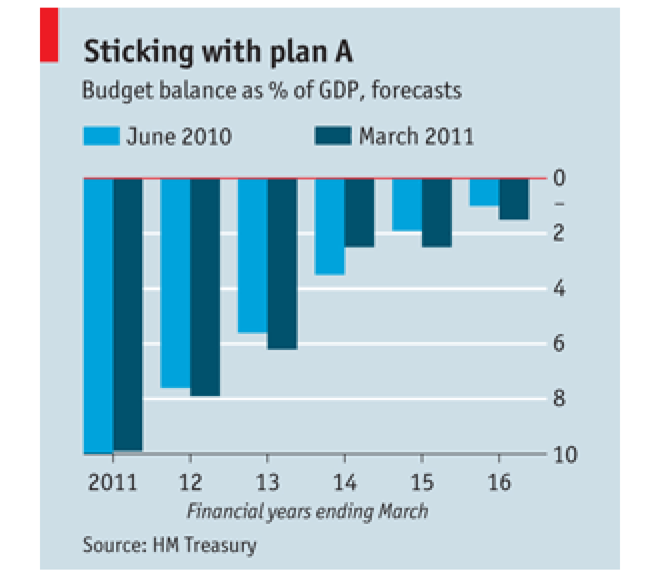
Budget 2011

No wriggle room

This was not the radical reforming budget it had been billed as. But its heart was in the right place



"THIS is not a tax-raising budget. But nor can we afford a giveaway." Thus George Osborne, the chancellor of the exchequer, drew the narrow parameters of his second budget on March 23rd. The broad sweep of the coalition government's fiscal policy was set in Mr Osborne's emergency budget last June, and in October's four-year public-spending review. His task then was to fashion a deficit-reduction plan of tax increases and spending cuts to reassure bond markets of Britain's creditworthiness. This time the chancellor was restricted to finding small pockets of extra revenue to finance modest but eye-catching tax breaks or subsidies.



At least he did not come back for more money from taxpayers and spending departments. Nine months in, the plan to eliminate the structural deficit during this parliament is broadly on track. Public-sector net borrowing will be pound146 billion ($237 billion) or 9.9% of GDP this financial year, a few billion less than the Treasury estimated in June. The deficit in 2011-12 and beyond will be a shade higher as a share of GDP than on previous forecasts, but not much (see chart).

This higher path reflects a slower pace of economic recovery rather than any let-up in the chancellor's zeal for fiscal austerity. The Office for Budget Responsibility (OBR), the fiscal watchdog set up by Mr Osborne last year, has revised its forecast for this year's GDP growth to 1.7% from 2.1% (the forecast for 2012 was nudged down to 2.5%). That change reflects the momentum lost in the 0.6% fall in GDP in the final quarter of 2010. The OBR reckons some of the drop in output will have been recovered during a sprightly first quarter in 2011 (it forecasts a 0.8% increase), though it has not revised up GDP growth in subsequent quarters. The OBR judges that the chancellor will meet his self-imposed fiscal targets.

Lawson lite

Robbing Peter to pay Paul

Budget 2011:
impact of main measures on exchequer, £m

	2011-12	2012-13
Fuel duty cut	-1,900	-1,600
Increase in personal tax allowance	*nil*	-1,050
Cut in main corporate tax rate	-425	-810
Support for housing market	-330	-200
Support for youth employment	-275	-95
Higher North Sea oil charges	1,780	2,240
Bank levy increase	630	285
Tax avoidance	985	1,055
Other changes	-475	-90
Total policy changes	**-10**	**-265**

Source: HM Treasury

With the big-picture stuff in place, Mr Osborne could administer a few small balms to the economy's sorest spots (see table). The costliest measure-and the one designed to capture the headlines-was the suspension of planned real-term increases in fuel duties for the life of the current parliament, together with an immediate one-penny per litre cut. That change will cost the Treasury pound1.9 billion in 2011-12, but will be more than paid for by an increased levy on North Sea oil producers, to capture the windfall gains from high crude prices. Mr Osborne justified this transfer from producers to consumers by noting that other oil-producing countries have tax systems that squeeze profits harder when oil prices are high. He said a sustained fall in the oil price below, say, $75 a barrel would prompt a reversal in the balance of taxation towards consumers.

Taxing the flush to help out the hard-pressed was a theme. The pound1 billion or so that will be raised by stopping businesses paying high earners in ways that sidestep income tax will be used to increase the personal tax-free allowance next year by a further pound630, to pound8,105, shielding more low-paid workers from tax. The revenue raised from an increase in the levy on bank assets will be used to fund a pound250m scheme in which the government will take an equity stake alongside housebuilders in newly built homes. The aim of the scheme is to bridge the gap between what homebuyers can offer as a deposit and what mortgage-lenders demand. Billed as support for first-time buyers, it is likely to help the depressed construction industry more.

This sort of mild populism is mostly harmless-and understandable given the scale of the pre-announced spending cuts and tax increases that begin next month. But Mr Osborne had bigger ambitions for his package of measures. "Today's budget is about reforming the nation's economy," he declared. "Britain has lost ground in the world economy and needs to catch up."

The chancellor's biggest anxiety is that Britain is no longer seen as a first choice for international businesses looking for a European base. To address this, he used what little money he could find to accelerate the cuts in business taxes announced in his first budget. The main corporate-tax rate will be cut by an extra percentage point in 2011-12 (from 28% to 26%), with further reductions bringing it to 23% by 2014-15. There will be more favourable tax treatment of the foreign earnings of British-based businesses, to help persuade footloose firms to stay.

It seems to be working: WPP, an advertising firm that moved to Dublin in 2008, has indicated it will return. On personal tax, Mr Osborne said that the 50% tax rate on incomes above pound150,000 a year "would do lasting damage" to the economy if it became permanent. He gave no timetable for its abolition but said he would ask Her Majesty's Revenue & Customs to assess how much money it actually raises.

The budget's pro-enterprise message was strengthened by the extension of (fairly inexpensive) tax breaks for capital directed at new businesses. A three-year moratorium on new business regulations is promised for start-ups and firms with fewer than ten workers. Britain's strict rules on development of new buildings will be relaxed; there will be extra perks in 21 new designated enterprise zones (see article). The chancellor also set aside pound275m to help improve the skills of young workers, by funding 80,000 work-experience placements, 50,000 new apprenticeships and extra investment in technical colleges.

These initiatives are unlikely to transform the economy. But their thrust is laudable. The cuts to corporate taxes sent the right signals, as did Mr Osborne's invocation of Nigel Lawson, a tax-reforming chancellor of the 1980s.

Yet he seemed rather cool on big changes to the tax system. The Treasury will scrap 43 of the 47 tax reliefs identified as ripe for abolition by the Office for Tax Simplification (OTS), a body set up by Mr Osborne last year. That will remove over 100 pages from a tax code that has grown larger than India's. But those reliefs are mostly redundant: they enlarge the tax code but do no real harm. The more radical OTS proposal to merge the tax and national-insurance systems will require "a great deal of consultation", said Mr Osborne; it could take years to implement. Such wholesale reform is easier when there is money to throw around to compensate losers, as Lord Lawson once noted.

The shortage of cash means this budget was a limited one. The size of the deficit and Mr Osborne's commitment to shrinking it tied his hands. The deficit-reduction plan is front-loaded: more of the pain of adjustment is planned for the coming fiscal year than any other. Given the economy's fragility, he could have postponed some of the discomfort and settled for higher borrowing in 2011. Instead he made a spirited defence of his plan A. Long-term interest rates are close to those of thrifty Germany, he said proudly, even though Britain's budget deficit is bigger than in Portugal, Greece and Spain, countries that face far higher borrowing costs.

He did not mention that a run of bad inflation figures (up to 4.4% in February) has made a fiscal U-turn trickier. Anxiety about the impact this year's fiscal tightening will have on the economy is one factor that has so far deterred the Bank of England from raising interest rates. Three of the nine-strong monetary-policy committee voted for an increase this month. Any easing in the fiscal squeeze could easily tip the balance towards a rise.

Index | Britain

Enterprise zones

Tarzan's return

Can a new wave of state-supported start-ups bring growth to poorer areas?



One of them swung this way before

THE 1980s have a nostalgic charm for a government whose leaders were students at the time. Perhaps that is why a key policy of the Thatcher years is back at the heart of the coalition's new growth strategy. This week's budget confirmed that 21 new "enterprise zones" will be set up, and be overseen by a pugnacious survivor of Tory governments past, Michael Heseltine (pictured right). Affectionately known as Tarzan, Lord Heseltine helped bring about the revival of the London Docklands and down-at-heel parts of Liverpool three decades ago. The prime minister, David Cameron (pictured left), is a fan.

The zones are intended to bring private-sector activity to places that rely heavily on the state, and so are more vulnerable to the public-sector cull now under way. In targeted areas the government will offer new businesses allowances of up to pound55,000 ($89,000) a year to rent premises. Add to that a discount on the business rates, inclusion in faster broadband expansion, the lure of plumper capital allowances, and the appeal of setting up shop in an enterprise zone is clear. Entrepreneurs will also enjoy faster planning applications-alongside a new general presumption in favour of development in the planning system, which could make objecting to it tougher.

But resources are limited: a total of pound100m to spread over 21 zones and four years. In any case, some think many jobs produced by the 38 enterprise zones set up in the 1980s were expensive and short-lived. The Centre for Cities, an outfit that analyses urban policy, puts the average cost per job created then at pound26,000 in today's money. And the zones tended to lure businesses from one location to another, argues Andrew Sissons of the Work Foundation, a think-tank, rather than encouraging genuinely new firms: "They may end up weakening the places that they are supposed to benefit, by moving productive resources out of strong business locations and into less competitive ones."

Ministers point to the previous scheme's rejuvenation of the Docklands and Liverpool's quayside area. It also led to the Doxford business park in Sunderland, which has attracted banks, insurers and the sporting-gear giant, Nike. But elsewhere, such projects have a mixed reputation. Often, as in Germany, the subsidies seem mainly to be a way to transfer funds from richer to poorer regions. For their part California and New Jersey are considering scaling down or dropping similar policies. "The evidence for success is mixed at best," says Henry Overman of the London School of Economics.

Alexandra Jones, boss of the Centre for Cities, thinks the government has learnt lessons from the past: "They are locating the new zones in areas where there is a realistic chance of producing growth, rather than focusing on reviving rundown areas which weren't realistically going to produce new jobs." Loopholes letting firms change names or move from neighbouring areas into an enterprise zone to get the subsidies will be closed, the Treasury insists. And inspired by Mr Cameron's concept of the "Big Society", the zones are expected to forge local partnerships to improve transport links and other shared facilities.

Alongside the economic motives lurk some raw politics. The first tranche of new zones will take in the West Country, the Midlands, Sheffield (where Nick Clegg, the deputy prime minister, has his seat), Merseyside and two areas in the north-east. One result of the project, the coalition hopes, will be a softening of hostility in parts of the country that were hard hit in the recession of the 1980s and resent the current cuts. A better balanced economy is the overall prize. Lord Heseltine, who turned 78 this week, knows the ropes and the pitfalls. All he needs are the jobs and the growth.

Index | Britain

Labour and the budget

We told you so

Ed Miliband has both an open goal and a hard task

THE Labour Party spent much of the past year accusing the government of being keener on cutting the deficit than hastening economic recovery, deploring the plight of squeezed middle-income earners in passing. Sure enough, George Osborne, the chancellor of the exchequer, made growth and living standards the twin themes of his budget this week. Opposition leaders rarely manage to push the debate onto their preferred turf like this. Ed Miliband was helped by events such as the surge in oil prices and Britain's slip back into negative growth late last year.

The Labour leader went for the jugular in his response to the budget. He brandished the downgraded growth forecasts for this year and next as supposed proof of the folly of fast and deep cuts to public spending. Voters already back Labour's view that the economy is too fragile to bear such austerity, according to opinion polls. Two more years of slow growth could leave Mr Miliband looking rather sage by the halfway point in this parliament. Ed Balls, his shadow chancellor, might emerge even better. He has long warned of the economic risks of rapid spending cuts, and is thought privately to regard even Labour's own, much slower plan to reduce the deficit, drawn up by a previous chancellor, as too fast.

There are at least two reasons, however, why Labour's invocation of bleak data on growth and inflation might not win over the electorate in the long term. The first is that the next general election might not be fought until 2015, and the official growth forecasts for that year and the previous one have been revised upwards. Inflation (4.4% in February) is also expected to be nearer the government's 2% target by then.

The second reason is that Labour lacks rival policies of its own. In response to the chancellor's measures to help households with fuel prices, for example, Mr Miliband offered no positive alternative, merely accusing Mr Osborne of taking help away with the other hand by increasing VAT. Mr Osborne's raising of the threshold at which people start to pay income tax is an idea that some Labour thinkers wish their own party had adopted in government. Until the party's policy reviews are complete, Mr Miliband will be open to the charge that he has nothing to offer but angry opposition.

For the moment, his task is simply to batter the government. He is joined in this mission by the trade unions, who are organising a march against cuts that is expected to bring hundreds of thousands to the streets of London on March 26th. Mr Miliband-whom the Tories have painted as "Red Ed", and with some success-must avoid being identified too closely with the obstructive left. As ever, Labour's commitment to notions of social justice and equality is not doubted by voters. Its competence on economic policy still is.

Index | Britain

Rotten boroughs, revisited

Democracy in action

The House of Lords stages the oddest of elections



BY-ELECTIONS are often dramatic referendums on the government of the day. Yet on March 22nd, a by-election was held to choose a new parliamentarian, and barely a soul noticed. There are two good reasons why. First, the vote was for a new member of the House of Lords rather than the Commons, and by an odd procedure that strains even Britain's notoriously elastic constitutional arrangements. Second, the result was known in advance.

In everyday life, the winner, Viscount Hanworth, is known as Stephen Pollock and is an economics professor at Leicester University. He has sat on the Labour benches of the upper house before, from 1997 to 1999. In that year, most of the hereditary peers, including Lord Hanworth, were kicked out of Parliament-but in a compromise deal, 92 were chosen to stay by internal elections among themselves. Since then, whenever one has died, his replacement has been elected from a register of some 180 would-be hereditary lawmakers, about half of them expellees and the rest heirs who have inherited titles since 1999.

This week's vote was caused by the demise of Lord Strabolgi, a well-liked figure who sat in the Lords for half a century. He died, aged 96, a couple of days after his last appearance in the Lords. Though pretty posh (his title dates back to 1318), he too was a Labour peer, and via the "usual channels" party bigwigs let it be known that they expected him to be replaced by another Labour peer. In theory, there were 24 candidates, drawn from all three main parties and the "crossbench" group of independents. In practice, grumbles one peer, everyone knew it was a choice between two Labour hereditaries.

Unfortunately for one of them, his resume includes a short spell in prison for assaulting a psychotherapist with a spanner. This being frowned upon, only the other Labour candidate, Lord Hanworth-known to one sceptical elector only as "some man whose name begins with H"-was left. It could have been worse. Because Lord Strabolgi formed part of a corps of office-holders in the Lords, this time the electorate was the whole house (768 people). If he had been an ordinary Labour peer, the electorate would have comprised only the other Labour hereditaries-all three of them.

It is assumed that these hereditary by-elections will be swept away if the government ever gets round to reforming the Lords. If that happens, Lord Strabolgi may be cheering from another place: in his last parliamentary intervention he called for the House of Lords to be replaced by an elected senate. Being democratic, said that wise old peer, such a body would be a stronger bulwark against an over-mighty executive.

Index | Britain

The mobile-phone spectrum auction

Three plus Three makes four

The telecoms regulator sets the rules for an auction of the 4G spectrum

TEN years ago, Gordon Brown, then the chancellor of the exchequer, was acclaimed for his prudence in using a windfall of pound22.5 billion to pay down the national debt. The money came from auctioning off electromagnetic spectrum to mobile-phone operators in 2000. The likes of Vodafone and Orange needed the new bandwidth to launch third generation, or 3G, services, such as mobile internet access. Sadly for Mr Brown's successor but one, George Osborne, nothing like as much will be raised by next year's planned auction of new spectrum for 4G, the draft rules for which were announced on March 22nd.

The advantage of 4G over its predecessor boils down to greater speed: 4G mobile internet access could be much faster than home or office broadband connections, making it much easier to watch video content on phones or tablets. However, operators feel they overpaid in 2000, when the technology bubble was at its most inflated. This left them short of cash to invest in infrastructure, which is why coverage remains patchy in some rural parts of Britain. As a rough guide to what Mr Osborne can expect from the spectrum sale, Germany raised just euro4.3 billion from its own 4G auction last year.

The government will want to squeeze as much revenue as it can from the sell-off, but it must also preserve competition in a consolidating industry. The recent merger of Orange and T-Mobile has left Britain with four mobile-phone operators: Everything Everywhere (the imperious name for the newly merged company), Vodafone, O2 and Three. That is a healthy number compared with some countries, such as America, where AT&T's proposed acquisition of T-Mobile USA would create what some regard as, in effect, a duopoly. But Three warns that it would struggle in an unrestrained bidding war with its larger rivals for the new spectrum. Without 4G services, it might be forced out of the market, cutting the number of operators to three.

Ed Richards, head of Ofcom, the telecommunications regulator, appears to share this concern. The draft auction rules surprised many in the industry by explicitly aiming to preserve four providers. Ofcom plans to do this by capping how much spectrum any one company can buy, and by forcing the auction to be repeated if four separate bids are not successful.

Ofcom is consulting on its plans and is likely to be deluged by lobbyists. Three wants the auction to compensate it for Ofcom's decision, taken in January, to allow operators that already had 2G spectrum to convert it for 3G services. This gives its rivals wider geographical coverage and greater capacity to handle calls and web-browsing. Three, which only entered the market at the time of the 3G auction, has no 2G to exploit.

The bigger operators, for their part, might try to persuade Ofcom to dilute its commitment to maintaining four providers, or even go to court to argue that the rules give Three an illegally privileged position. The longer these arguments go on, the longer British consumers will have to wait for the benefits of 4G. They were among the first to enjoy 3G services, but the disputes between companies and regulators have allowed other countries, such as America, Japan and Sweden, to steal a march on 4G technology.

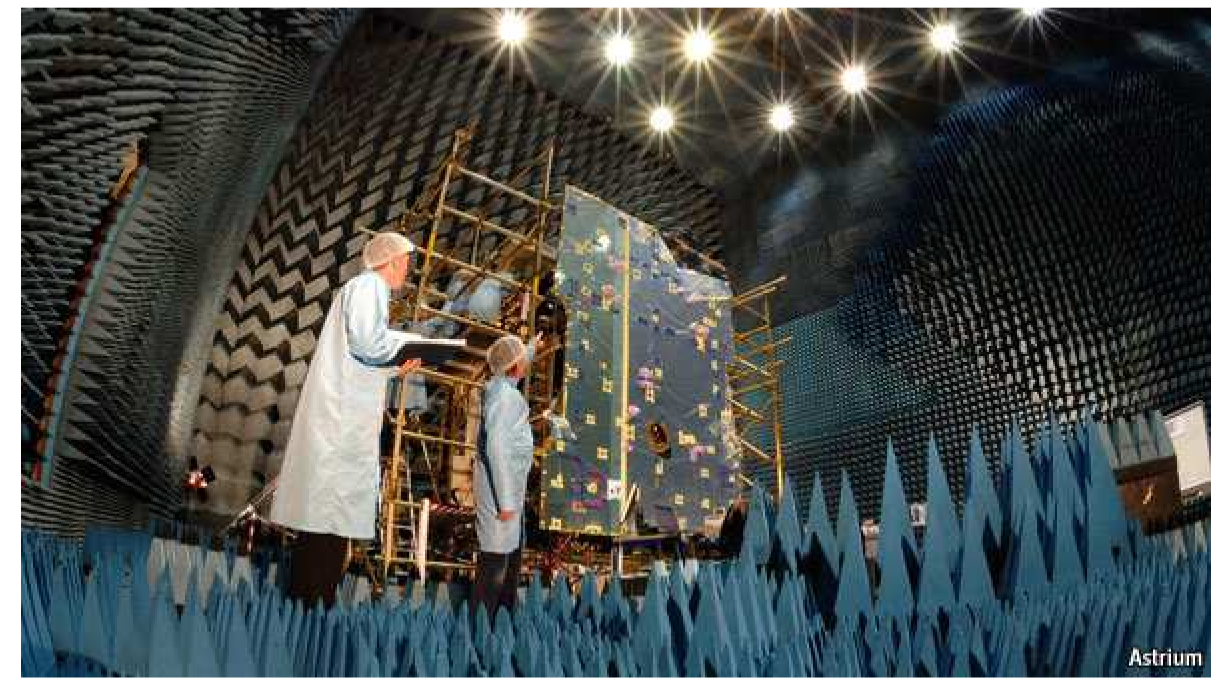
There are issues of social justice, and not just national pride and impatience, at stake. A "digital divide" has opened up in Britain in recent years: parts of the country still have slow broadband, or none at all. The emergence of 4G has been vaunted as part of the solution. Mobile phones are already rivalling fixed connections as the main way in which people access the internet. But even if Ofcom's planned auction is delayed no further, Britain will not get 4G until at least 2013.

Index | Britain

The space industry

Onwards and upwards

High-tech manufacturing and services have proved resilient to recession



Astrium reaches for the stars

AMERICA and Russia dominate the space industry: their governments and companies control most of the satellites that beam television pictures into homes, guide drivers and peer down on the planet. At 6.5%, Britain's share of the industry is modest. Yet the sector has piqued the interest of George Osborne, the chancellor of the exchequer, for the way it has quietly grown during the economic doldrums.

Over the past decade space has become a medium-sized industry in Britain, with revenues of about pound7.5 billion in 2008-09, according to a survey by Oxford Economics, a consultancy. It reckons that the space sector has grown by 10% a year on average, including an 8% boost when the country was in recession.

Space commerce in Britain is less subsidised than in America and elsewhere. Most of the revenue comes from selling technologies and services rather than satellites themselves. Broadcasting is particularly lucrative: not only does BSkyB account for a big chunk of the industry, but almost all television goes via a satellite at least once on its way to homes, whether or not the viewer is explicitly paying for satellite television.

One of the country's biggest space firms is Astrium, which has a turnover of almost pound500m, employs 4,000 people and is owned by the Franco-German aerospace giant EADS. It manufactures communications satellites and sells support services. Staff at its Portsmouth site assemble intricate electronics components and test them almost to destruction (the company must compensate its customers for any satellite that fails in orbit). Colin Paynter, chief executive of Astrium in Britain, attributes the resilient growth of the space industry to its long time scales: satellites usually take up to two years to design and build, and operate for 15 years. And demand for ubiquitous access to social networking creates new opportunities for satellite broadcast and communications.

The sector has been strengthened by consolidation. In 2008 Astrium bought Surrey Satellite Technology, a spin-off from the University of Surrey that specialises in building small, cheap satellites for customers in countries such as India and Nigeria. It has set up a subsidiary, Paradigm, which provides satellite links for soldiers as part of a pound3.6 billion deal with the Ministry of Defence. Yet there are hundreds of smaller outfits with turnovers of less than pound1m, leaving scope for future acquisitions and mergers.

More competition is coming from Brazil, China, India and South Korea, which all have government-subsidised space programmes. But British firms' head start and access to the City should give them an edge. The government is sensibly supportive. A new space-business incubation centre will soon open at Harwell near Oxford. The new UK Space Agency, intended to co-ordinate space science, Earth observation and technology development, will be fully functioning next month. It aims to increase Britain's market share in space from 6.5% to 10% by 2030.

Index | Britain

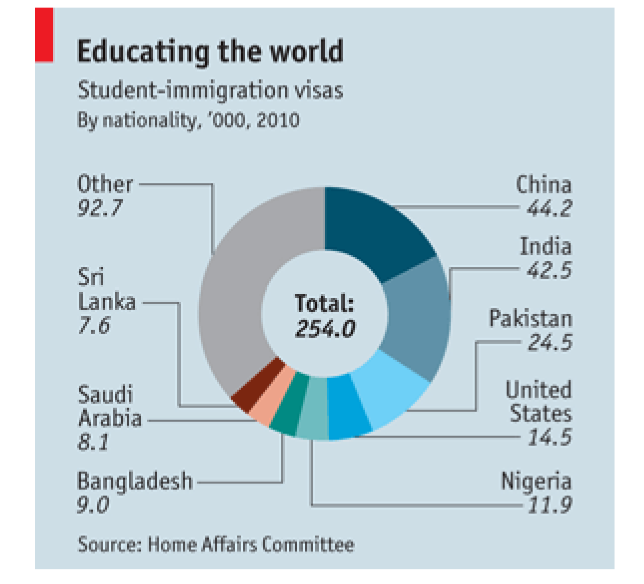
Loud talk, small stick

Plans to cut the number of foreign students are less draconian than feared



THE home secretary, Theresa May, has a distinctive approach to immigration policy: she threatens Armageddon and settles for a middling skirmish. The explanation lies in her Conservative Party's pre-election pledge to cut annual net immigration, running at 226,000 in the year ending last June, to "tens of thousands" over the course of this parliament. The pledge has proved difficult to fulfil (because British emigration keeps dropping, and because European Union citizens cannot easily be kept out) and controversial (arguably the economy needs immigrants to grow). The Tories' Liberal Democrat coalition partners aren't very keen on the goal anyway. No surprise, then, that plans to curb student visas announced on March 22nd bear signs of private compromise, as well as of public consultation with a nervous education lobby.

For Tories intent on cutting immigration, study visas provide a great opening. The number of these visas, which allow students to stay in Britain for more than a year, has increased sharply, from 186,000 in 2007 to 254,000 in 2010. The lion's share goes to China and India (see chart). Students and their dependants accounted for two out of three migrants from outside the EU last year-and that is without counting more than 49,000 short-stay student visitor visas, which technically don't count toward immigration totals.



There are non-political reasons to want to discourage some types of foreign students from coming to Britain. Despite a reform of the regime by the previous government, abuses remain. Some young people see a study visa as a quick ticket to the British job market and eventual settlement. Bogus colleges (fewer than in the past) promise to provide just that.

But teaching foreigners is a thriving business. Overseas students pump at least pound10 billion a year into the economy. The higher fees they pay at university subsidise domestic students. Every ten full-time university students from outside the EU create three full-time British jobs, according to Ursula Kelly of Strathclyde University. These benefits are spread around the country, not concentrated in London and the south-east. Many think it would be mad to imperil this proven source of economic growth.

Mrs May expects her new measures to cut non-EU student numbers by at least 70,000-80,000 a year, or more than a quarter of the non-EU total (EU citizens don't need visas to study in Britain), though both numbers and policy details remain a work in progress. Private colleges recruiting foreign students will be subject to tighter scrutiny. Most students will have to show greater proficiency in English and more robust proof that they can support themselves. The rules on part-time working are to be tightened. Only postgraduate students or those sponsored by their governments will henceforward be allowed to bring dependants. University students who complete their degrees may stay on for two years only if they land a skilled job at a reasonable salary, rather than hanging around hopefully or flipping burgers.

But three big threats have been averted. Educators feared that all courses below university level might be ruled off limits to overseas students, even though between 40% and 50% of foreigners at British universities had taken an earlier course in Britain, usually to hone language or study skills. That will not be the case. They worried too that the two-year post-study work privilege, a big draw for international students, would be revoked altogether. It has not been. And a mooted fixed cap on foreign student numbers, to go with the previously announced limit on skilled workers, has been shelved, allegedly because of Lib Dem influence-though Mrs May hints that she might reconsider if the number of post-study workers balloons.

This is not Mrs May's last word on immigration. She will be back shortly, she says, with proposals to narrow the family-reunion immigration route (including a crackdown on sham marriages), and then to make it harder for holders of time-limited visas for study or work to convert them into permanent settlement. Expect more apocalyptic proposals-and, with luck, more discreet retreats.

Index | Britain

Bagehot

The ghost of Tony

David Cameron leads a sceptical nation to war



A MONTH ago, David Cameron shuttled from Egypt to Kuwait, Qatar and Oman to explain why-in his response to the spreading protests of the Arab spring-he would not be Tony Blair. He did not use quite those words. Instead, Britain's prime minister portrayed himself standing midway between two foolish extremes. On one side were the "naive neoconservatives" who thought that democracy could be dropped from a bomb bay at 40,000 feet (hello, Mr Blair). On the other, generations of suave Foreign Office types, murmuring that "Arabs or Muslims can't do democracy", and that stability is all.

Instead Mr Cameron announced an alternative, middle path. His government would not press for instant democracy everywhere, but would urge Arab leaders to grant basic rights-free speech, the right to free assembly and the rule of law-precisely because denying people such rights was a recipe for instability. At the time, Bagehot concluded that this strategy was not so much a diplomatic third way as a bet on events: a low-key version of neoconservatism, wagering that gradual reforms would bring more stability than despotism.

One month on, events in Libya have outrun the prime minister's cautious middle way. Mr Cameron's modest ambitions-standing up for the right of ordinary Arabs to voice their hopes and frustrations-find him transformed from pragmatist to war leader. To adapt the prime minister's own schema, he finds himself defending the most basic rights of Libyans, namely freedom from brutal repression and the right to self-determination, with bombs dropped from 40,000 feet.

So is Mr Cameron perforce adopting Mr Blair's doctrine of liberal interventionism? He insists not. "This is not another Iraq," he told Parliament on March 21st, in a six-hour debate filled with theatre designed to convey that point, from Mr Cameron's patience with backbench interventions to the sight of the attorney-general sitting at his side (government legal advice approving the Libya action was summarised for MPs in an official note). Mr Cameron pointedly calls the military action in Libya "necessary, legal and right". Yet that same neat tricolon captures something more complex than an outright rejection of the Blair doctrine. Parsed carefully, its three elements signify, in order: "not like Blair, definitely not like Blair-and a rather Blair-like argument for war".

If Britain lost a good deal of innocence in Iraq, that unhappy war has not eradicated the appeal of "doing the right thing" for the political class. Even after Iraq, pacifism does not occupy the moral high ground in British politics. Two broad reasons were cited as MPs endorsed military force against Muammar Qaddafi, by 557 to 13 votes. The first, which united the Conservative-Liberal Democrat coalition with most of the Labour Party, cast the use of military force as a response to a humanitarian emergency. America, France and Britain had been in a "race against time" to prevent a slaughter of civilians in Benghazi, Mr Cameron told Parliament. Supporting the government, the Labour leader of the opposition, Ed Miliband, drew comparisons with the Holocaust and the Spanish civil war, and spoke of an international "responsibility to protect", when crimes against humanity loom.

Yet the public, wearied by years of entanglement in Iraq and Afghanistan, seems queasiest about the Libya mission when it is cast in purely altruistic terms. A poll asking if British forces should risk death or injury to protect Libyan rebels from Colonel Qaddafi found 53% opposed. Unsurprisingly, Mr Cameron is keen to assure British voters this mission is not merely an outbreak of do-goodery, but also "hard-headed" (a favourite Cameron phrase), rooted in national interests, and limited in scope.

The prime minister duly offers a second, buttressing set of arguments for war, couched in national-interest terms. Were Mr Qaddafi left to kill, unchallenged, the international community's word would be exposed as hollow, his regime might return to exporting terrorism and waves of refugees, and hopes for the Arab spring risk being dashed. The prime minister's sincerity is proved by the political risks he has run, British sources argue. He has bound his fate to France's Nicolas Sarkozy, an alarmingly mercurial figure. What is more, when Mr Cameron decided to join the French drive for a UN Security Council resolution authorising military strikes, he didn't know "where the Americans were going with this", sources say. Remarkably, they add, Barack Obama's decision-making had been so opaque that when America tabled strong language extending the draft's scope, Britain half-feared a bid to wreck the resolution by attracting a veto.

Now it gets harder

The prime minister's contention is that the moral and pragmatic spurs to action are complementary. Alas, in Libya, a humanitarian approach and the cold-eyed pursuit of national interests might yet come to seem in tension. Asked how he thinks the Libyan mission will end, Mr Cameron can only offer a fudge. He told MPs that success will involve an end to attacks on civilians, at which point "the Libyan people must choose their own future".

Paradoxically, if this mission is essentially humanitarian, Britain's commitment really is limited, as Mr Cameron promises: do-gooders can always harden their hearts and walk away. In contrast, if Mr Cameron truly believes that Libyan instability directly threatens British interests, then his commitment will be guided by events on the ground, most of which Britain cannot control.

Stopping a massacre in Benghazi was the right thing to do. From now on, this gets harder. A thoughtful new Tory MP, Rory Stewart-a former soldier and diplomat, familiar with Iraq and Afghanistan-urged Mr Cameron to stick to modest, achievable goals and humble language. It was good advice. The opposite certainly did for Mr Blair.

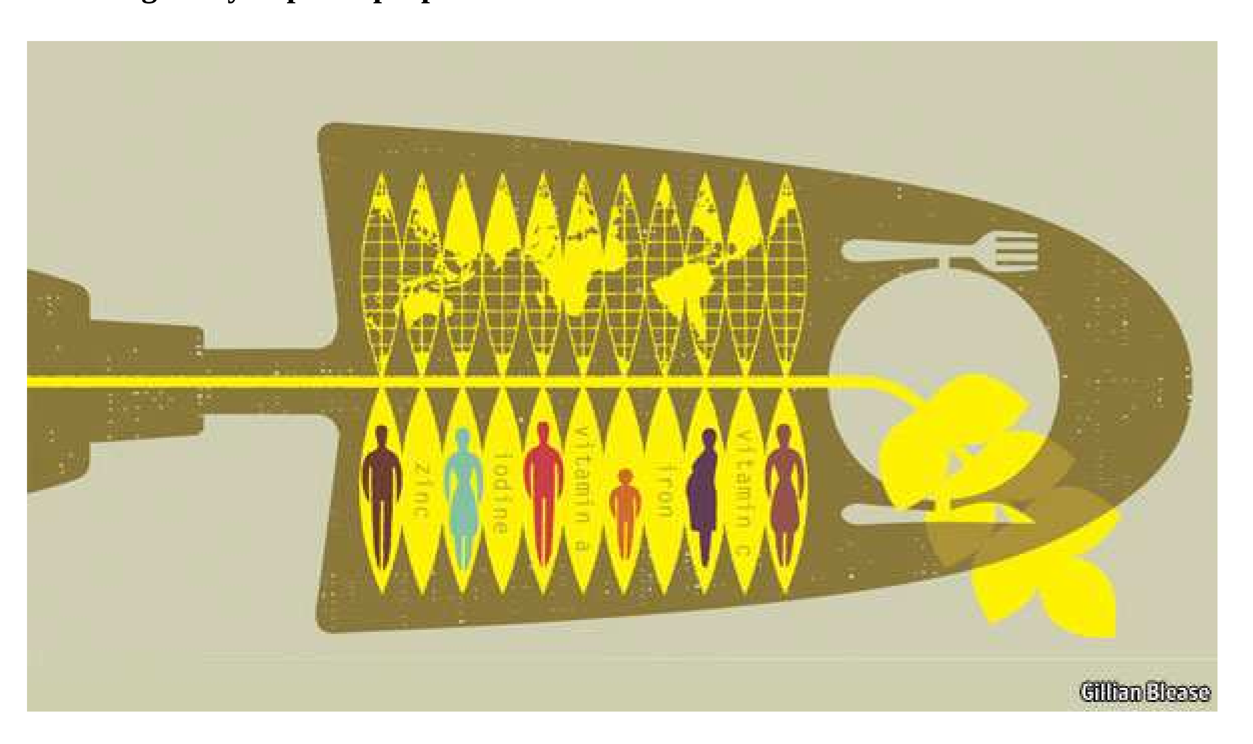
Economist.com/blogs/bagehot

Index | International

Agriculture and nutrition

Hidden hunger

How much can farming really improve people's health?



IN A market in southern Uganda two traders squat behind little piles of sweet potatoes and a sign that says "with extra vitamin A". A passing shopper complains about the price: 10% more than ordinary sweet potatoes. Yes, say the traders, but they're better, bred with extra vitamin A. The bargaining goes back and forth, but the struggle to improve the crop has already been won. Since 2007, when an outfit called HarvestPlus began distributing the "biofortified" rootcrop in Uganda and Mozambique, 50,000 farmers have started to plant it or crops like it. Vitamin A intake has soared and the produce commands a premium. The shopper eventually buys some.

Nutrition has long been the Cinderella of development. Lack of calories-hunger-is a headline-grabber, particularly as rising food prices push more people towards starvation. But the hidden hunger of micronutrient deficiencies harms even more people and inflicts lasting damage on them and their societies. It, too, worsens as food prices rise: families switch from costly, nutrient-rich, fruit, vegetables and meat to cheaper, nutrient-poor staples.

In 2008 the Copenhagen Business School asked eight eminent economists to imagine they had $75 billion to spend on causes that would most help the world. Five of their top ten involved nutrition: vitamin supplements for children, adding zinc and iodine to salt and breeding extra micronutrients into crops (like those sweet potatoes). Others included girls' schools and trade liberalisation.

Lack a day

Deficiencies and their effects

Micronutrients, RDA*	Deficiency effects
Calcium, 1000-1300mg	Rickets, osteoporosis
Iodine, 150µg	Goitre, mental retardation
Iron, 8-18mg	Anaemia
Sodium, 1.5g	Nausea, fatigue, confusion
Zinc, 8-11mg	Infections, diarrhoea
Vitamin A, 900mg	Night-blindness
Vitamin B9, 400mg	Birth defects
Vitamin C, 90mg	Scurvy
Vitamin D, 5-10mg	Rickets

Source: Institute of Medicine of the National Academies

*Recommended daily allowance for adults

Of the 40 nutrients people need, four are in chronically short supply: iron, zinc, iodine and vitamin A. Vitamin A is essential for the mucous membranes that protect the body's organs, such as the eyes. Lack of it causes half a million children to go blind every year; half of them die within a year as their other organs fail. Vitamin A supplements were the Copenhagen experts' top choice. Zinc deficiency impairs brain and motor functions and causes roughly 400,000 deaths a year. Shortage of iron (anaemia) weakens the immune system and affects, in some poor countries, half of all women of child-bearing age.

Too hungry to think properly

The missing nutrients bite wide and deep. Education levels drop (malnourished children concentrate poorly); earning-power weakens. Even marriage chances wane: malnourished boys marry women of lower educational levels when they grow up.

Common responses include handing out vitamin pills and fortifying common foods with micronutrients (such as putting iodine in salt). But policymakers are now asking whether farming could do more to improve nutrition. That was the subject of a recent conference in Delhi organised by the International Food Policy Research Institute and attended by 1,000-odd politicians, scientists and activists.

Farming ought to be especially good for nutrition. If farmers provide a varied diet to local markets, people seem more likely to eat well. Agricultural growth is one of the best ways to generate income for the poorest, who need the most help buying nutritious food. And in many countries women do most of the farm work. They also have most influence on children's health. Profitable farming, women's income and child nutrition should therefore go together. In theory a rise in farm output should boost nutrition by more than a comparable rise in general economic well-being, measured by GDP.

In practice it is another story. A paper* written for the Delhi meeting shows that an increase in agricultural value-added per worker from $200 to $500 a year is associated with a fall in the share of the undernourished population from about 35% to just over 20%. That is not bad. But it is no better than what happens when GDP per head grows by the same amount. So agriculture seems no better at cutting malnutrition than growth in general.

Another paperâ€ confirms this. Agricultural growth reduces the proportion of underweight children, whereas non-agricultural growth does not. But when it comes to stunting (children who do not grow as tall as they should), it is the other way round: GDP growth produces the benefit; agriculture does not. As a way to cut malnutrition, farming seems nothing special.

Why not? Partly because many people in poor countries buy, not grow, their food-especially the higher-value, more nutritious kinds, such as meat and vegetables. So extra income is what counts. Agriculture helps, but not, it seems, by enough.

In addition, when poor people do have a bit more cash, they do not spend it all on food, as nutritionists hope (see also Economics focus). A study from Maharashtra, in western India, back in 1983, found that poor people spent two-thirds of their extra income on food; and the very poorest did not spend much more of their extra money than the least poor, even though they had just one-sixth of the income. People spent almost 40% of their additional rupees on wheat, rice or sugar: costly and (in the case of sugar) not very nutritious. So even when the poor do spend more on food, they do not buy the stuff that is most nutritious or the best value. In a forthcoming book** Abhijit Banerjee and Esther Duflo of the Massachusetts Institute of Technology conclude that "the poor seem to have many choices, and they don't elect to spend as much as they can on food."

Agriculture, then, is no magic solution. But farming could do more to improve nutrition-as is clear from countries' widely varying records. Malawi, Bangladesh and Vietnam all increased agricultural value-added by roughly $100 a head from 1990 to 2007, and cut malnutrition by 15-20 percentage points. Egypt, Guatemala and India pushed up agricultural value-added more-yet their malnutrition rates rose.

The success stories are instructive. In 1990 a charitable organisation called Helen Keller International started to encourage market gardens in Bangladesh, providing women (mostly) with seeds and advice. By 2003 (the year of the latest available research), four-fifths of families in the target area had gardens, against 15% in the whole country. Almost all women and children were eating green vegetables three times a week, compared with only a third beforehand. And vitamin A intake had soared. Projects like this work because they improve what people like to eat anyway.

Changing the mix of crops works, too. Many countries' food policies are essentially about providing cheap grain, which is just a start. When people do not have enough calories, staples such as rice and wheat are vital: they provide the most calories per dollar. But when people have enough calories they need to diversify towards vegetables, pulses and meat. In many places, irrigation and fertiliser subsidies, government marketing and other schemes implicitly or explicitly favour cereal farmers. So poor countries go on encouraging cereals longer than they need to. And plant breeders tend to raise cereals which maximise calories, not nutrients.

Policymakers can also try to increase women's control over farming decisions (in some countries, only men may own land or get agricultural credit, for instance). They could boost research into more nutritious non-staple crops; and provide clean water and better transport, which especially benefits kitchen gardeners, because their produce goes off.

But there are limits. Malnutrition does the most damage in the first 1,000 days of life. In those months maternal health, breastfeeding and infant care, not agriculture, matter most. Better farming can mean more calories and higher incomes. But with nutrition, it offers only a few steel bullets, not a silver one.

*"Growth is good, but not enough to improve nutrition", by Olivier Ecker, Clemens Breisinger and Karl Pauw.
â€ "Turning economic growth into nutrition-sensitive growth", by Derek Headey.
**"Poor Economics", by Abhijit Banerjee and Esther Duflo. Public Affairs. 320 pages. $26.99.

Index | International

Running world football

Bin Hammam tackles Blatter

After 13 years in possession, soccer's global boss faces a challenge

FOOTBALL is played by the young but ruled by the old. Sepp Blatter, president of FIFA, the game's global governing body, since 1998, is 75. His immediate predecessor lasted 24 years and retired at 82; the chap before him served 13 years and was ousted at 79. Mr Blatter does not believe his work is quite done. On June 1st he hopes to win another four-year term, which he promises will be his last.

Unusually, someone stands in his path to goal: Mohamed Bin Hammam, the Qatari head of the Asian Football Confederation (AFC) and something of a stripling at 61. Another tackler, Grant Wahl, an American journalist, has some good ideas but no chance at all. He has yet to secure the single nomination he needs from any of the 208 national associations that make up FIFA's membership and will have one vote each in June.

Commercially, under Mr Blatter FIFA has done well. It counts its money in four-year cycles-between World Cups-and in the most recent, ending in 2010, it raked in revenue of $4.2 billion, up from $2.6 billion in 2003-06. More than $2.4 billion came from television and $1.1 billion from marketing rights, almost all of it related to last year's World Cup.

With more coming in, more can be handed out. In the last cycle the federation spent $794m on "development projects". This included one-off payments of $550,000 for each national body and $5m for each of the six regional confederations (eg, the AFC). To officials from small, poor countries, that is a lot of money. It also included $120m under a programme called Goal. Projects range from renovating pitches to "strengthening of administrations".

In other respects, FIFA is a laughing stock, or worse. Mr Blatter is given to lewd remarks about female footballers and clownish ones about homosexual fans. FIFA is still dithering about using video technology to assist referees, long after other sports adopted it. But it rushed to outlaw snoods (neck-warmers) on the field: Mr Blatter feared that a player might be strangled. Meanwhile, match-fixing, or the suspicion of it, too often stains the game FIFA is supposed to govern.

Administrative scandal frequently attaches itself to FIFA. The most recent outbreak concerned the procedure for deciding where to stage the World Cup. In principle this is simple: FIFA's 24-man executive committee decides. In practice it is murky. Allegations of log-rolling, though denied, plagued the voting last year for 2018 and 2022 (Russia and Qatar were chosen). In November FIFA banned two committee members who had told undercover reporters they would be swayed by promises of cash for football pitches and a sports academy. The federation seemed angrier with the journalists than with its fallen officials.

The Goal programme may help not just Mr Blatter, because Mr Bin Hammam chairs the committee that hands out money for it. He says he wants voting on World Cups to be "transparent"-but insists FIFA is not corrupt. He also says he might seek only one term: that may allow Michel Platini, head of UEFA, the European confederation, to succeed in 2015 and so may win European support. Mr Bin Hammam might yet gain possession. But Mr Blatter will be hard to stop.

Index | Business

Mobile telecoms in America

An audacious merger with a poor reception

AT&T's ambitious bid to reshape America's wireless market has spooked rivals. But it faces significant hurdles



PEOPLE who enjoy poking fun at the patchy quality of AT&T's mobile-phone network in America were provided with some fresh comedy material this week. "So, AT&T and T-Mobile are getting married. You're all invited. But there will be no reception afterwards," tweeted one wag after news emerged on March 20th that AT&T had bid a breathtaking $39 billion for T-Mobile USA, a smaller wireless operator owned by Germany's Deutsche Telekom.

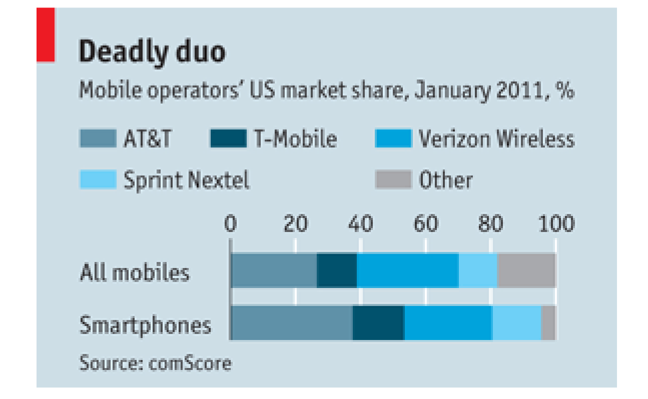
Amusing as this is, the deal itself is no laughing matter. On the contrary, the proposed merger, which needs the approval of antitrust and telecoms regulators, has sparked a good deal of controversy over whether it will be good or bad for American consumers. Some members of Congress have called for a thorough review of the transaction and consumer groups have been quick to condemn it.

Their concern is hardly surprising. America's four largest mobile-phone operators-AT&T, Verizon Wireless, T-Mobile USA and Sprint Nextel-already account for 82% of the national market. Assuming the transaction goes ahead as planned, AT&T would add T-Mobile's 34m customers to the 96m that it had at the end of 2010, propelling it well ahead of Verizon, its main rival.

Critics of the deal, which AT&T hopes to complete within 12 months, say it will undermine efforts made many years ago to inject more competition into America's telecoms industry. In the mid-1970s the government started investigating AT&T's dominant position in fixed-line telephones, which led to the break up in 1984 of "Ma Bell" into eight pieces. Could the bid for T-Mobile be a sign that monopoly Ma is trying to return from her grave?

AT&T maintains that its deal will not be anticompetitive, even though it will leave it and Verizon with a combined 70% share of the American market, up from 58%. It points out that the average inflation-adjusted price for wireless services in America fell by 50% from 1999 to 2009 according to the Government Accountability Office, an arm of Congress, even though there were several large mergers involving mobile-phone companies during that period. The company also argues that many local markets in America still have five or more mobile-phone firms pitching for customers' business, so taking T-Mobile out of the mix should not dent competition.

Fans of the deal reckon such arguments should be enough to convince regulators. Hal Singer of Navigant Economics, a consulting firm, notes that although T-Mobile's prices are low, it has been losing subscribers rapidly, which suggests that it is hardly an effective check on AT&T. That may explain why Deutsche Telekom is so keen to say *auf Wiedersehen* to its American wireless business.



However, an antitrust expert says that exclusive, nationwide device deals such as the one AT&T struck with Apple in 2007 for distribution of the latter's iPhone could encourage regulators to take a far broader view of the market than they have done in the past, not least because in smartphones, the near-duopoly of AT&T and Verizon will be so much stronger (see chart).

At an industry conference this week, Dan Hesse, the boss of Sprint Nextel, gave warning that allowing AT&T to walk off with T-Mobile would leave "too much power...in the hands of two". The Computer & Communications Industry Association, whose members include firms such as Google and Facebook, echoed that sentiment. In a statement on March 22nd it said that the proposed deal "may be the most aggressive and anti-consumer merger proposal in history."

AT&T's plan could also hit another snag. In several previous mergers between mobile-phone companies regulators have required the merging businesses to sell wireless spectrum, network infrastructure and other assets in some local markets to win their approval. This has allowed smaller competitors such as US Cellular and MetroPCS to snap up the assets, turning them into stronger rivals in those areas. AT&T has made it clear it is willing to do the same thing to get a green light for its deal. But given the great clout the new entity would have, regulators may conclude that even a large number of disposals would not guarantee robust competition in some areas.

An annual report on the state of America's wireless industry published last year by the Federal Communications Commission (FCC), which along with the Department of Justice must approve AT&T's bid, shows that regulators were already concerned about the state of competition in mobile telephony before this week's news. Having previously affirmed, year after year, that the industry was "effectively competitive", it declined to do so, though it made no specific recommendations on how to improve matters.

Wrapped in the flag

All this explains why AT&T has been doing its best to drape its deal in the Stars and Stripes. Among other things, it argues that T-Mobile's subscribers will be able to benefit from its investment in a new, fourth-generation (4G) high-speed wireless broadband network, which will further the Obama administration's goal of creating a connected population. (Deutsche Telekom was supposedly unwilling to make a similar investment in its infrastructure.) AT&T also trumpets the fact that its deal would transform T-Mobile from a foreign-owned outfit into an American one.

But nationalistic considerations should not be allowed to obscure the underlying impact that the proposed deal would have on consumers. Indeed, America's politicians and regulators would do well to look at other countries' experience before reaching a decision on AT&T's bid.

Canada provides a cautionary tale. There, three big companies, TELUS, Bell Mobility and Rogers Communications, were together allowed to gain control of almost 95% of the wireless market. Amid complaints about high call rates (among the rich world's priciest) and a lack of innovation, the government used a spectrum auction in 2008 to create a raft of new players. But these have largely struggled against the industry's behemoths.

British regulators are taking steps to avoid a similar fate. On March 22nd the country's telecoms regulator said it would auction a chunk of radio spectrum next year for 4G services. And it said it wanted to manage the auction so as to ensure the country will have at least four national mobile-phone operators capable of providing consumers with higher-quality wireless data services.

Thanks to AT&T's move this week, American regulators will now have to decide how best to defend the interests of consumers there. Mobile-phone users will be hoping that they dial C for choice rather than D for duopoly.

The battle for Parmalat

Italy's yogurt is also strategic

A French bid for an Italian dairy giant offends national pride



Dessert storm

THE Alps are just not high enough to bar Gallic marauders. Earlier this month LVMH, a Parisian luxury-goods giant, made off with Bulgari, a Roman jeweller; and French firms have recently had an Italian insurer and power company in their sights. Now milk, yogurt and cheese are on the menu. On March 22nd Lactalis, a French dairy group, said it had increased its stake in Parmalat, its largest Italian counterpart, to around 29%, just below the threshold for a mandatory takeover offer. The next day Italy's cabinet met to discuss granting itself new powers to block foreign bids for "strategic" companies.

With annual sales of euro8.5 billion ($11.3 billion), Lactalis is twice Parmalat's size. And it knows Italy. Between 1997 and 2006, a decade in which Parmalat went from boom to bust, it bought three Italian cheese brands to become the country's biggest cheesemaker. The new Parmalat-formed after the old one collapsed in 2003, in Europe's biggest bankruptcy-made net profits of euro285m last year and was sitting on euro1.4 billion of cash in December. Its boss, Enrico Bondi, is credited with turning the company around. But he is under fire. Three foreign funds, which have now sold their shares to Lactalis, had been seeking to boot him out. A new board, for which Lactalis has put forward its list, will be chosen by shareholders at their next meeting.

With official support, Intesa Sanpaolo, a large bank with a 2.4% stake in Parmalat, has tried to rally efforts to keep the French at bay. It has proposed a rival slate of directors, with Mr Bondi's name at the top. Italian ministers are especially peeved at their French counterparts, whom they accuse of stymieing Italian firms' attempts to invest in France. French politicians do indeed have a habit of making absurd arguments about takeover targets being "strategic", as PepsiCo discovered six years ago when it was warned off Danone, a French dairy group. Message from Rome to Paris: if your yogurt is a vital national asset, so is ours.

This is not the first time that Intesa has shown itself a willing instrument of industrial policy. And in the case of Parmalat it may have another reason for action. It owns almost 20% of Granarolo, a dairy group that lost money every year between 2005 and 2008; it made just euro3m or so of profit last year on sales of euro884m. It is thought to want Parmalat to buy Granarolo instead of itself being bought.

But to block Lactalis, Italian businessmen would have to put their money where their politicians' mouths are. Ferrero, a chocolatier, has expressed interest in "an Italian industrial solution". Yet it would be a poor fit with Parmalat; and the last time it did politicians a favour, agreeing in 1985 to take part in a bid for a state-run food company, the whole affair ended up as one of Silvio Berlusconi's courtroom sagas. So Ferrero may be wary of helping now.

As well as having to abide by strict European Union rules against protectionism, Italian politicians must remember their country's huge public debt. To keep rolling it over, Italy has to keep convincing investors it is "market-efficient and market-friendly", says John Andrew, chairman of Eidos Partners, a Milanese investment bank. All this means that the bluster emanating from Rome about a Frankish invasion may result in little of any substance.

Index | Business

Corporate restructuring

Starbursting

Breaking up companies is back in fashion



Achieving better traction on the stockmarket

FOR weeks, speculation has been rife that Pfizer, the world's biggest pharmaceuticals company, will break itself into pieces, a restructuring move known as the starburst. The firm is considering reducing itself to what Ian Read, its boss, calls its "innovative core" by spinning off not just its four smaller non-pharmaceutical divisions (nutrition, consumer health, animal health and capsule-making) but also its huge "established products" division.

If this happened, reckons Sanford Bernstein, a research firm, Pfizer's annual revenues would shrink from around $67 billion to at most $40 billion. It would be the most notable example yet of the revival of starbursting. So far this year, firms on the world's stockmarkets have spun off bits of themselves as separate listed companies worth a total of $92 billion, Citigroup calculates. That compares with $54 billion in all of last year, and if the current rate continues, it will easily beat the pre-crisis record of $234 billion in 2007.

So far this year the biggest such deal has been Fiat's spin-off of a division that makes lorries and tractors, valued at $18 billion. This is still overshadowed by the largest on record, Altria's $108 billion spin-off in 2008 of its Philip Morris International cigarette business. America's largest deal this year is Motorola's hiving-off of its handset-making business, worth $10 billion. ITT, a serial starburster, recently separated off its defence and information business, and a water

company, leaving behind a smallish engineering group. The trend is catching on around the world: Carlos Slim, a canny Mexican billionaire, is spinning off Minera Frisco, the mining arm of his Carso conglomerate, worth $7 billion.

One of the main reasons for the starburst revival is that companies seeking buyers for parts of their business are not getting good offers from other firms, or from private equity. Foster's, an Australian drinks group, is prepared to sell its wine business but, if no decent offer is forthcoming by May, will spin it off.

Another driving force is the "conglomerate discount"-when stockmarkets value a diversified group at less than the sum of its parts. There is talk that Lufthansa, which Citigroup reckons would in pieces be worth twice the parent company's market value, may spin off its in-flight catering business. Although the conglomerate discount is not usually as extreme as that, its sharp increase in the past year is one of the main reasons companies are regaining their enthusiasm for spin-offs, says Carsten Stendevad of Citigroup. By comparing conglomerates' constituent businesses with similar, stand-alone ones, Mr Stendevad calculates that they now trade at a discount of around 9%-more or less where things stood before the crisis of 2008.

That this discount is real seems to be confirmed by the positive stockmarket reaction to the latest starbursts. From 20 days before the announcement of a spin-off to 60 days after, the combined value of the parent and spun-off children has on average outperformed the market by eight percentage points, says Mr Stendevad.

The conglomerate discount is far bigger in America and western Europe than in Asian and emerging economies. This may be because in these countries a big conglomerate with political connections and an understanding of how to operate in a difficult market can spread its expertise across many industries. Indeed, there is a conglomerate premium of 10.9% in Latin America, according to Citigroup. This may be why, in some parts of the world, conglomerates are becoming even more diversified: witness Samsung Electronics, which is moving into pharmaceuticals.

America's big tech firms are also bucking the starburst trend and diversifying. Oracle, a software giant, has moved into hardware, and Hewlett-Packard, a computer-maker, is expanding further into software and services. Their big corporate customers increasingly want a one-stop shop for their information systems.

There is still plenty to the argument that first caught on in the 1980s that breaking up a conglomerate lets managers focus more effectively on the needs of each of the parts of the sum. Yet nowadays the market is relatively pragmatic in its view of conglomerates. Steven Kaplan, an economist at the University of Chicago Booth School of Business, reckons that "as long as your conglomerate is doing well, you can probably keep it together, but when it doesn't work, it gets broken up."

Even so, this year's surge in spin-offs and the rise in the conglomerate discount certainly suggest that new diversifications are likely to be far outweighed by corporate break-ups. Until, that is, management gurus and investment bankers cook up a new theory to justify conglomerates, and the cycle of integration and disintegration starts all over again.

Index | Business

Group messaging

Fine-tuning the friends list

The next big thing in social media, maybe

THE annual SXSW Interactive festival in Austin, Texas, is a blur of panels and parties, as social-media entrepreneurs and investors scramble to corral the early adopters who can push their products into the mainstream. Twitter has not looked back since its SXSW debut, four years ago, when it proved an instant hit among festival-goers.

This year GroupMe, a "group messaging" service, said it had given away 2,500 grilled-cheese sandwiches over the five days of the festival. GroupMe defeated several lookalikes-including Beluga, which Facebook has just bought-to win the festival's Breakout Digital Trend award. It also handled more than 2m messages a day relating to SXSW-a huge boost to its traffic that must work out at thousands of new users per sandwich, a pretty good return on investment.

Group messaging is simple. One texter sets up the group, online or with a smartphone, and invites others. The group gets its own phone number, and a text sent to that number goes to everyone in the group. Even people with dumbphones can take part. That makes it work for those stragglers who still do not have e-mail on their mobiles (although some of GroupMe's competitors work only on iPhones and Android phones).

This is a handy variant of social networking. Sites such as Facebook and Twitter are essentially public (though users can restrict who sees their messages); indeed, they involve an element of performance. Group messaging represents a step back from broadcasting. It preserves some measure of intimacy and exclusivity. Beluga, for example, asks users to sort their contacts into "pods", each serving as a distribution list.

It all sounds useful, but how is it going to make money? GroupMe, which raised $10.6m in January, is mulling advertisements tailored to groups. But users may not welcome a spambot suddenly weighing in on their dinner plans. Etiquette questions will also arise among friends. Group texting is logical when membership has already been delineated- for the team-mates on a project, for example. Among friends, there will surely be tiffs over who is in, and out, of which group. Despite such worries, group messaging looks destined to be old hat by the time next year's SXSW comes around.

Index | Business

China's carmakers

Dream deferred

A Chinese car company carrying great expectations stalls



Buffett: How do I get out of here?

IF ANY company captured the optimism (and possibly hype) emanating from China, it was BYD, whose three letters are said to be short for "build your dreams". The Shenzhen-based company makes mobile-phone batteries, cars and solar panels, thereby combining growth prospects with green virtues. This appealing combination received a credibility boost in 2008 when a subsidiary of Warren Buffett's Berkshire Hathaway bought a 10% stake.

Mr Buffett seemed to have picked another winner. Within a year the price of BYD's shares had risen ninefold. The battery business, which had been a huge success, was drifting, but car sales were accelerating at a stunning pace, from none in 2003 to more than 500,000 last year, including the F3, a small sedan with a modest 60,000-yuan ($9,150) price tag and

numerous features like electric windows, cup-holders and iPod docks, which quickly became the most popular car in China.

Any enthusiasm over BYD's conventional cars paled next to the excitement over its plans for electric ones-the reason, it was thought, for Berkshire's interest. Two years ago Scott Laprise of CLSA, a stockbroker, was so wowed by a test run of the F3DM, a hybrid that could switch from petrol to electric power at the flip of a switch, that he immediately placed an order.

Mr Laprise is still waiting for delivery; and BYD has announced a series of delays to another hybrid, intended for the American market. Meanwhile, in the hypercompetitive Chinese market, the F3 is suddenly an old model. Geely, another Chinese manufacturer, has an equally inexpensive but more modern car that is this year's flavour. "Chinese buyers are proving to be more loyal to features than brands," says Mr Laprise. "When something nicer comes along, they buy it."

Although last year's total sales were up 18% on the previous year, they were well below the 700,000 to 800,000 cars that the firm had been expected, at one point, to shift. The Chinese market as a whole grew by one-third. And the real bad news may be to come. Mr Laprise reckons BYD's sales will drop from 525,000 in 2010 to 425,000 this year, a shocking decline for a big Chinese carmaker and a stunning blow for what had been widely considered to be one of the country's bright lights.

Other problems loom. BYD was fined for obtaining land improperly for a factory in Xi'an. There are suggestions that at least some of its sales are the product of pushing cars on dealers, which then sit unsold in lots. More broadly, government incentives instituted in 2009 because of the financial crisis were scaled back in 2010 and are now mostly gone. Petrol prices are up, as are component costs. Big Chinese cities are bringing in restrictions on car ownership to cut congestion. Luxury cars are looking fairly resilient so far, but sales of cheap cars and lorries are sliding. BYD's share price is now about one-third of its 2009 peak.

BYD's chairman, Wang Chuanfu, is lauded as a near-genius, and the company's workers are said to be uncommonly motivated. After Mr Buffett's investment in the company it was mobbed by bright students from all over China, seeking jobs. So why has it been hit particularly badly?

In theory, BYD's battery and car operations added up to an expertise in electrical cars; in reality, the technology of low-powered phone batteries is quite different from that of high-capacity car ones. The firm may be having similar difficulties in achieving synergies between its solar-panel division and a rumoured project to make energy-efficient appliances. Two years ago BYD symbolised China's glorious prospects. These still exist, but today the firm may reflect how hard they are to realise.

Index | Business

Business in India

The price of graft

Investors have gone off India. Blame, in part, uncertainty over corruption

CORRUPTION is dreadful in India, as shown by a current "season of scams"-over mobile-phone licences, the Commonwealth games and more. Politicians, notably the ruling Congress party, are now feeling the public's ire (see article). Worries have also grown that graft is scaring away foreign businesses.

Circumstantial evidence points that way. A spokesman for a big Western firm mutters into his cappuccino about a recent High Court decision, which if upheld would cost his company billions. It was so strange, he says, it could be explained only by judicial graft. A representative of a British media firm, SIS Live, which broadcast the Commonwealth games from Delhi, in October, is furious-along with other contractors-at being left millions of pounds out of pocket because, he says, payments have been frozen by investigators digging up evidence of corruption at the event.

Across the board, surveys regularly tell how graft is an unusually heavy tax on Indian business. An annual one published on March 23rd by PERC, a Shanghai-based consultancy, shows investors are more negative than they were five years ago. Of 16 mostly Asian countries assessed, India now ranks the fourth-most-corrupt, in the eyes of 1,725 businessmen questioned. Being considered worse than China or Vietnam is bad enough; being lumped with the likes of Cambodia looks embarrassing.

Outsiders may get an exaggerated view. India's democracy, with a nosy press and opposition, helps to trumpet its scams and scandals, more than happens in, say, China. Yet locals tell similar tales. A cabinet minister frets that there is so much *ghotala* (fiddling), "it tells the world we are all corrupt. It may be a dampener to investment." Others agree. KPMG this month reported on 100 bosses who were asked about their own experience of graft. One in three said it did deter long-term investment.

Clean-up costs

Judging how much difference it makes is tricky. Right now, investors may be spooked as much by the fight against graft as by the corruption itself. Arpinder Singh of Ernst & Young in Mumbai says foreigners, especially those with some connection to America, increasingly hire firms like his to help them comply with America's Foreign Corrupt Practices Act. Once a foreigner holds more than about 5-10% equity in an Indian firm, it is seen as having some responsibility for how it is run.

Now even Indian firms, if they want to raise money abroad, or if their bosses want to protect their own professional reputations, are doing the same. As other countries, such as Britain, bring in tough anti-graft laws like America's, the trend will continue. Yet many Indian firms still fail to comply with higher standards, so deals falter. Mr Singh ticks off a list, "in infrastructure, ports, toll roads, irrigation, microfinance", of deals he has worked on that collapsed over "governance problems".

None of this is enough to prove that graft, alone, is scaring off business. Pranab Mukherjee, the finance minister, insists there is no correlation between corruption and foreign direct investment (FDI). Jeffrey Immelt, the boss of GE, in Delhi last week, cheerily agreed, insisting that a fast-growing market trumps all other concerns.

But something is keeping investors wary. In 2010 the country drew just $24 billion in FDI, down by nearly a third on the year before, and barely a quarter of China's tally. There is no shortage of other discouragements: high inflation, bureaucracy, disputes over land ownership, and limits on foreign ownership in some industries.

Even so, India is home to an unusually pernicious form of corruption, argues Jahangir Aziz of JPMorgan. Elsewhere graft may be a fairly efficient way to do business: investors who pay bribes in China may at least be confident of what they will get in return. In India, however, too many crooked officials demand cash but fail to deliver their side of the bargain. Uncertainty, not just the cost of the "graft tax", may be the biggest deterrent of all.

Index | Business

Cyril Ramaphosa's business empire

Big man, Big Macs

Another giant deal for one of South Africa's biggest tycoons



But he'd really rather have some fish and salad

BORN in a black township in 1952, Cyril Ramaphosa rose to become South Africa's leading trade unionist, switching to politics and then to business after the end of apartheid. He became one of the country's richest men, and is still occasionally mentioned as a possible future president. Now he is the face of McDonald's in Africa's biggest economy.

Mr Ramaphosa, who once said his favourite meal was fish with salad, will own and run all the American burger giant's operations in the country, including 132 outlets. He will have a 20-year franchise and a mandate to "turbocharge" growth. The price of the deal has not been revealed. Since opening its first restaurant in South Africa in 1995, McDonald's has struggled against fierce home-grown competition. Famous Brands, its main rival, has more than 1,100 outlets, operating under such names as Steers, Wimpy and Mugg & Bean.

Mr Ramaphosa, a lawyer by training, founded the National Union of Mineworkers, building it up to become South Africa's most powerful union. He helped bring about apartheid's peaceful end as one of the African National Congress's main negotiators. By the time he was elected to parliament in the country's first fully democratic elections in 1994 he was already being tipped as Nelson Mandela's likely successor, but he lost out to Thabo Mbeki.

He promptly resigned his political posts and went into business. With his formidable connections, negotiating skills and charm, he took to it like a duck to water. He was one of the first to benefit from the ANC government's black economic empowerment (BEE) policies, building an empire in mining, energy, property, banking, insurance and telecoms. With investments said to be worth 1.55 billion rand ($224m), Mr Ramaphosa has joined the 31-strong club of rand billionaires. His wife is the sister of Patrice Motsepe, another BEE tycoon and the country's first black dollar billionaire.

Deals like the McDonald's one seem to fall into Mr Ramaphosa's lap. As well as serving as executive chairman of his own Shanduka group, he has a string of non-executive chairmanships and directorships of some of the country's biggest and best-known companies, including Bidvest, a giant food-service and distribution business. He is also a member of Coca-Cola's international advisory board. Both positions should serve him in good stead in his new job. Although South Africa's media continue to talk up his presidential prospects, he says he has no interest in returning to politics.

Does South Africa really need any more fast-food joints? The World Health Organisation reckons 62% of the country's men and 73% of its women are already overweight, making it one of the fattest countries in the world. Almost a quarter of men and two-fifths of women are obese. But then, as President Jacob Zuma has shown with his three large wives and one equally large wife-in-waiting, in South Africa big is beautiful.

Index | Business

Schumpeter

Peculiar people

How far should one push the idea that companies have the same rights as ordinary people?



Brett Ryder

OVER the past year and a bit the United States Supreme Court has produced two landmark rulings on the metaphor at the heart of corporate law: the idea that companies are legal persons. Unfortunately, the rulings point in opposite directions. In *Citizens United* (2010) the court ruled that the constitution's first amendment guarantees companies the same right to free speech as flesh-and-blood people. This means they have the same right as individuals to try to influence political campaigns through advertisements. But in a case involving AT&T the court ruled this month that the company has no right to personal privacy.

The legal conceit that companies are natural persons is vital to capitalism. It simplifies litigation greatly: companies can act like individuals when it comes to owning property or making contracts. Timur Kuran of Duke University argues that the idea of corporate personhood goes a long way to explaining why the West pulled ahead of the Muslim world from the 16th century onwards. Muslim business groups were nothing more than temporary agglomerations which dissolved when any partner died or withdrew. Legal personhood gave Western firms longevity.

The concept of companies as people became ever more vital as capitalism developed. Until the mid-19th century companies (as opposed to partnerships) were regulated by corporate charters which laid down tight rules about what they could do. But reformers used the idea that companies, like people, should be captains of their own souls, to free them from these restrictions. The result of this liberation was an explosion of energy: Western companies turbocharged the industrial revolution and laid the foundations for mass prosperity.

America's legal system has been forced to grapple with the meaning of corporate personhood more thoroughly than other countries' courts have done, because the constitution is so specific about the rights it bestows on people. And for the most part the Supreme Court has been generous in extending the rights of flesh-and-blood people to artificial persons (which include trade unions and other collectives as well as corporations). In *Santa Clara County v Southern Pacific Railroad* in 1886, for example, it ruled that companies enjoy the protections of the 14th amendment (including due process and equal protection under the law).

Yet these artificial persons have always provoked worries, too. Aren't they likely to use their collective muscle to trample over the little people? And won't they invoke the rights of ordinary people without burdening themselves with the responsibilities? These worries started in Britain in the age of chartered corporations. In the 17th century Sir Edward Coke, a jurist, complained that "they cannot commit treason, nor be outlawed, nor excommunicated, for they have no souls." But the complaints have grown louder as companies have been freed from their charters and the Supreme Court has reinforced their rights.

Some critics of corporations have also put the idea of corporate personhood to their own uses. Joel Bakan, a legal academic, has produced a book and a film-both called "The Corporation"-which argue that, if companies are people, they are particularly dysfunctional and irresponsible ones. In the film, he even consults a psychiatrist who argues that companies display all the characteristics of a psychopath: callous disregard for others' feelings, inability to maintain relationships, a willingness to bend any rule and break any law if it advances their interests, and an obsession with amassing power and money.

This is overheated rhetoric, to be sure. But you do not have to be a radical to worry about the might of organisations that can live for ever and take up residence in dozens of countries at once. Nor is it unreasonable to wonder why the idea of corporate personhood should only cut one way: if companies enjoy the same rights as flesh-and-blood humans then shouldn't they be under the same obligations? The conservative majority on the Supreme Court is in danger of digging a trap for itself: strengthening the arguments of people who insist that companies have a moral duty to pursue social rather than merely business ends.

Don't take it personally

The court knows it can take the analogy too far. It has ruled against companies being allowed to take the fifth amendment (against self-incrimination). It has restricted companies' rights to make political contributions: for example, they cannot give donations directly to individual candidates. In the AT&T decision John Roberts, the chief justice, devoted a lot of effort to demonstrating that "personal" is more than an adjectival offshoot of "person": when a company's boss asks his finance director a "personal" question he is not likely to be asking about the company's balance-sheet. Indeed, the term "personal" is frequently used to mean the very opposite of "corporate". But all this umming and erring confuses more than it clarifies.

What would help is if the Supreme Court (and indeed corporate law in general) adopted a clear principle when it comes to the analogy between artificial persons and real ones: that companies should be treated as people only in so far as it is expedient. They clearly need to be able to enter into contracts just like individuals. But they should not be treated as if they experience such essentially human emotions as embarrassment and a desire for self-expression. Thus they should not have the same rights to privacy and political freedom as a citizen, but should have only as much of a right to confidentiality and political participation as is helpful for the efficient functioning of business (including letting firms contribute to the public debate on the regulation of business). Companies-or rather their bosses and owners-should welcome such constraints: any further "rights" would, sooner or later, be matched by onerous responsibilities.

Economist.com/blogs/schumpeter

Index | Briefing

Nuclear power

When the steam clears

The Fukushima crisis will slow the growth of nuclear power. Might it reverse it?



FEAR and uncertainty spread faster and farther than any nuclear fallout. To date the crisis at the Fukushima Dai-ichi nuclear plant in Japan, laid low by the tsunami of March 11th, seems to have done little if any long-term damage to the environment beyond the plant's immediate vicinity or to public health. In fits and starts, and with various reverses, the situation at the plant has come closer to being under control.

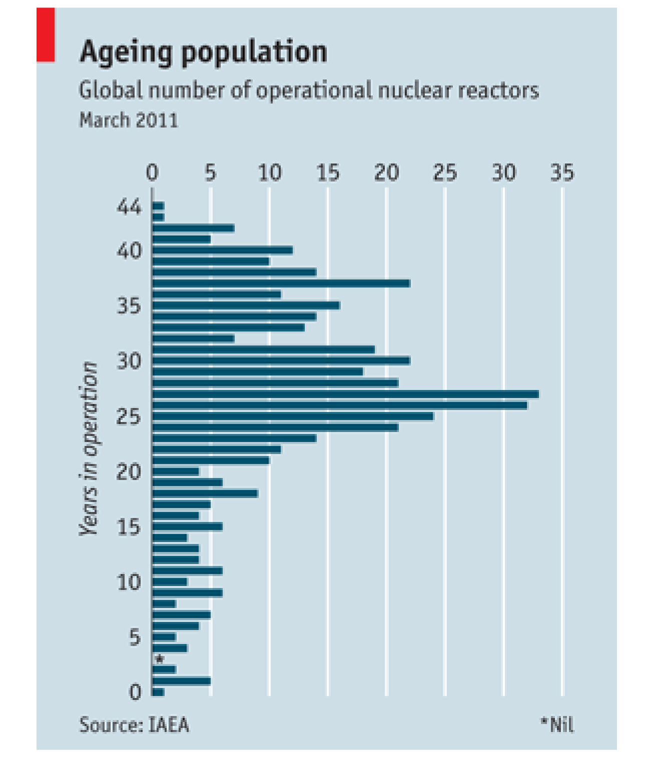
But the immediate crisis is far from over. The temperature of the three reactors with damaged central cores still fluctuates and water systems for the spent-fuel pools are jury-rigged at best. Contaminated food has been found a disconcertingly long way away, although it seems to be being kept out of the food chain. There are worries about tap water in distant Tokyo.

There will certainly be more durable effects too. Years of clean-up will drag into decades. A permanent exclusion zone could end up stretching beyond the plant's perimeter. Seriously exposed workers may be at increased risk of cancers for the rest of their lives (which may nevertheless be long). A concern for the long term, like uncertainty and fear, is one of the things that nuclear power invariably brings to discussions of future energy.

To a lot of environmentalists, the priority is to get nuclear power out of those discussions once and for all. Simply put, you can't trust the stuff. Somewhere, eventually, reactors will get out of control. One did at Three Mile Island in Pennsylvania in 1979. One did at Chernobyl in 1986. Now three have done so again, and an argument that had seemed to be running short of puff (Chernobyl's 25th anniversary comes up in April) is revived. Though this disaster has been nothing like as bad as Chernobyl, it is in some ways a lot worse than Three Mile Island-a bit like three Three Mile Islands in a row, with added damage in the spent-fuel stores.

Fukushima Dai-ichi, it is true, was swamped by a natural catastrophe of biblical proportions. But this argument cuts both ways. Nuclear planners clearly did not appreciate how bad things could get on a low-lying coast in a seismic zone; and poor planning is part of the problem. One reason why Japanese confidence in nuclear power had been growing in recent years was that past scandals led to resignations and the prospect of reform among planners, power companies and regulators. Whereas in 2005 only a quarter of people felt nuclear energy was safe, by last year more than 40% did, according to a survey by Japan's Cabinet Office. Finding sites for new reactors was not proving easy-and old reactors stayed online as a result-but it did not seem impossible.

Elsewhere, too, the industry was reviving. Figures from the World Nuclear Association, a trade body, have shown more capacity planned and proposed than on the ground. Now much of this expansion looks likely to be curtailed. Even the replacement of reactors may be in question.



When last year a volcano closed the skies over Europe and a blown-out oil-rig turned the Gulf of Mexico black, there was no widespread enthusiasm for giving up oil or air travel. But nuclear power is much less fundamental to the workings of the world than petrol or aeroplanes. Nuclear reactors generate only 14% of the world's electricity, and with a median age of about 27 years (see chart) and a typical design life of 40 a lot are nearing retirement. Although the world is eager to fly and thirsts for oil, it has had little appetite for new nuclear power for the past quarter of a century.

This is not just the direct result of Chernobyl. New nuclear plants cost a great deal of money. After Fukushima they are likely to cost even more, thanks to extra uncertainty in licensing and approval if nothing else. Another problem now made manifest is that if operator error or shoddy construction causes a reactor of the same design as yours halfway round the world to go wrong, yours may be shut down too. This is not a merely theoretical possibility. Seven German nuclear reactors which were officially safe until mid-March have been shut down. It is widely thought that at least some will not open again.

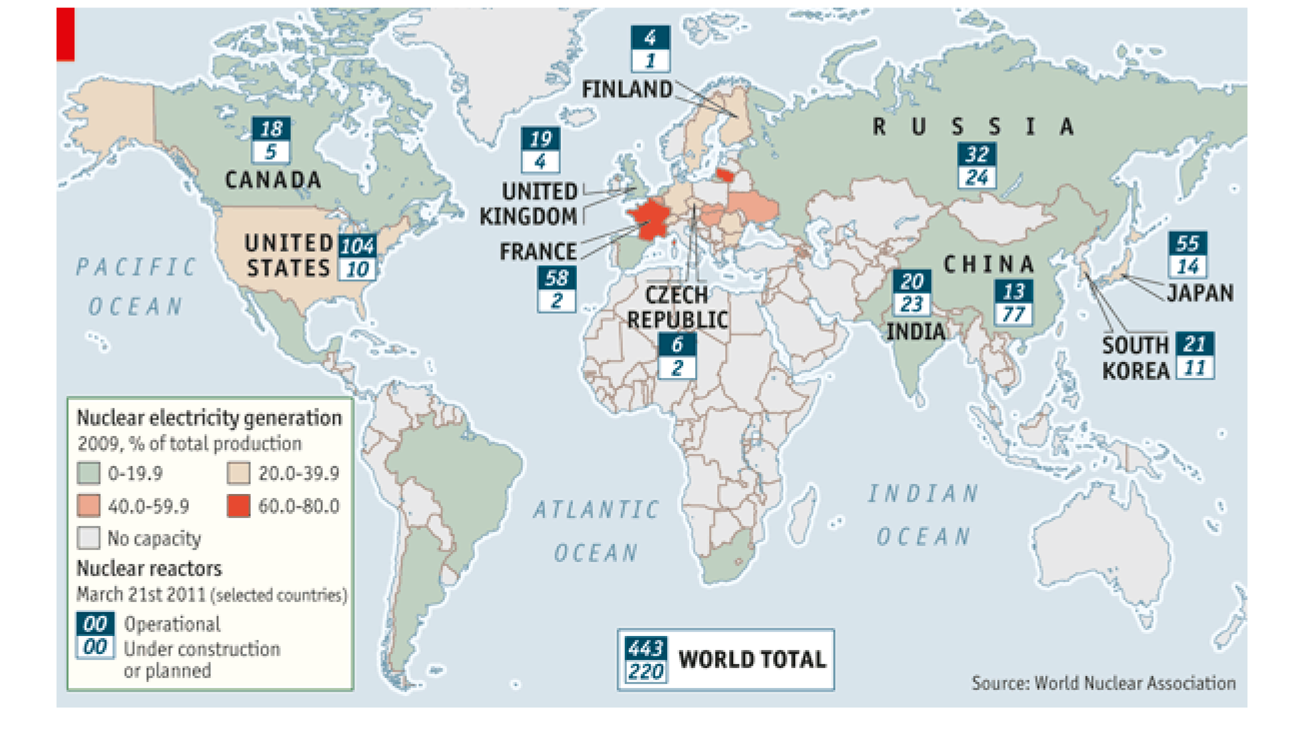
And if that happens, Germany will not suffer much. While the nuclear industry has stalled since Chernobyl, natural gas and renewables have come on impressively. German electricity prices would probably go up, depending to some extent on the price of gas and carbon, because although new nuclear plants are expensive, old, depreciated ones make cheap electricity. But it would not be the end of the world.

The 14% solution

Nuclear power thus looks dangerous, unpopular, expensive and risky. It is replaceable with relative ease and could be forgone with no huge structural shifts in the way the world works. So what would the world be like without it?

The most obvious answer is: a bit warmer. In 2009 the world's electricity generators emitted about 9 billion tonnes of carbon dioxide, out of an industrial total of 30 billion tonnes and a grand total, including deforestation and the effects of other gases, equivalent to some 50 billion. Without nuclear power and with other fuels filling in its share pro rata, emissions from generation would have been about 11 billion tonnes. The difference is roughly equal to the total annual emissions of Germany and Japan combined.

To put that in perspective, in 2010 the UN Environment Programme estimated that for the world to have a reasonable chance of limiting global warming to less than 2^C, carbon-dioxide emissions should be reduced to 44 billion tonnes by 2020. With business as usual, emissions would be between 54 billion and 60 billion tonnes. If countries took the most ambitious of the courses of action that they have outlined to the UN, the figure comes down to about 49 billion tonnes, leaving an "emissions gap" of 5 billion tonnes that seems highly unlikely to be bridged. So the 2 billion tonnes saved by nuclear power is not vast, but it is significant.



That said, a complete withdrawal from nuclear energy is not on the cards. Though China, which has 77 reactors at various stages of construction, planning and discussion, has said it will review its programme in the aftermath of Fukushima, few expect it to stop entirely. China has a great appetite for energy, which will continue to grow. For now its energy sector is highly concentrated on coal, but so that the country can both diversify and clean its air China's latest five-year plan aims for growth in all sorts of non-coal energy, including wind power, gas and nuclear. Adverse public opinion and the additional cost of capital caused by uncertainties over regulatory approval have much less salience in China than elsewhere.

Some other countries will also go ahead: Russia says it sees no reason to stop work on ten reactors that are in development. But there could still be a widespread withdrawal from the technology by OECD countries, caused by national changes in policy or stiffer local opposition. And grand though China's ambitions are, for now OECD countries produce more than 80% of the world's nuclear electricity.

Analysts at Societe Generale, a French bank, argue that if these rich countries built no more reactors and allowed existing ones to close at the end of their planned lives, an extra 860m tonnes of carbon a year would be emitted, on average, from 2010 to 2030. This may underestimate the impact on the system as a whole, because nuclear plants and large dams are the only broadly reliable sources of baseload electricity that do not burn fossil fuels. Although renewable capacity has been added quickly in some countries, you cannot be sure that the wind will blow or the sun will shine to order. A fair part of this can be smoothed out if the various sources are linked into an electric grid that is sufficiently large, robust and smart, but that does not obviate all the need for baseload.

Most studies assume that in a fully decarbonised electricity system the baseload would come either from nuclear or from fossil-fuel plants fitted with carbon capture and storage (CCS) technology. However, CCS has yet to be demonstrated on anything like the necessary scale, so deploying enough of it to replace existing and expected nuclear plants is a tall order. And a public that was turning against hubristic nuclear engineering might also object to the large-scale storage of a potentially asphyxiating gas beneath the ground, which CCS requires. This "numby" (not under my back yard) attitude has already affected some pilot projects.

Damn Vermont Yankee

America, which leads the world in installed nuclear power, may lead the world in turning away from the technology, too. In 2007 Congress agreed to provide loan guarantees for nuclear power; some 28 applications for new stations have since been filed. Barack Obama pledged in his state-of-the-union address in January 2010 to build a "new generation of safe, clean nuclear power plants". Even before Fukushima, though, this was looking increasingly unlikely. The recession hit demand. Ever-more-available shale gas brought a cheap and reliable alternative route to domestically fuelled electricity. And the lack of climate legislation meant there was no price on carbon, which would have favoured nuclear power.

There are just two new American reactors under construction, neither with full regulatory approval (a third, approved under an earlier system and then put on ice, is also under way). Few in the industry expect many more. Applications for

around 20 plants to extend their licences are before the government and requests for 15 more are expected shortly. The Nuclear Regulatory Commission has already granted them to 64 plants, most recently on March 21st to Vermont Yankee, which is of the same design and vintage as the Fukushima reactors. This similarity has not been lost on the Vermonters trying with renewed vigour to shut it down. Expect more local opposition in years to come.

In Japan, where nuclear power provides 30% of the country's electricity, the debate may be more complex than outsiders imagine. Japan's nuclear anguish stems more from the way the industry is run than from its technological essence. The Japanese are angry at bureaucrats and TEPCO, the company that owns Fukushima Dai-ichi, for a long record of shoddy safety standards and cover-ups. "*Amakudari* kills," tweeted a well-known reformer recently, referring to the "descent from heaven" of senior bureaucrats to cushy jobs in industries they used to regulate. So although Japan may phase out a lot of older reactors, the public may tolerate nuclear power in the form of new, better plants with management it trusts.

In the European Union Austria, Denmark, Greece, Ireland and Portugal are strongly anti-nuclear, but the EU as a whole is unlikely to go their way. Its response to Fukushima has been to call for "stress tests" of its members' reactors. Britain, the Czech Republic and Finland hope soon to build some more. Finland and France, which produces more of its electricity in nuclear plants than any other big country, each have under construction a plant of the European Pressurised Reactor (EPR) design developed by AREVA, a French industrial group. Plans may be delayed or diminished, but a complete halt to building is unlikely.

France, in particular, seems certain to remain resolutely pro-nuclear. The French nuclear industry may even see Fukushima as an opportunity. The EPR is touted as being especially safe: if concerns about safety could be turned into a regulatory case for building only EPRs in Europe, so much the better. The British, Czechs and Finns, who are all also looking at a design by America's Westinghouse (the Finns are examining a South Korean one, too), would not be keen to be captive customers, but they may choose EPRs anyway.

The most labile European country on matters nuclear has, not surprisingly, been Germany, where great engineering and anti-nuclear sentiment have long coexisted uneasily. In 2002 the then centre-left government said it would phase out nuclear power by 2022. Last year the current, centre-right lot extended the lives of seven ageing reactors by eight years. In response to Fukushima it shut them again, at first for three months.

Getting gas

Some or all of those plants may not reopen. If none did, then according to Stefan WÃ¤chter of Point Carbon, a research firm, German carbon-dioxide emissions would increase by 435m tonnes in the decade to 2020. Analysis by Deutsche Bank suggests that at least 23 gigawatts of new gas-fired capacity would need to be built by the same year. Gas-fired plants are the natural short-term response in part because Germany's grid cannot take much more in terms of renewables (of which the country already has a lot) both because of their peaks and troughs and because some would need to be offshore. That said, demand for renewables elsewhere might increase, as Germany's extra use of fossil fuels pushed up the price of carbon in Europe's emissions-trading scheme.

In its likely switch to gas, Germany reflects the probable post-Fukushima world. In any country where nuclear provides less electricity than had been expected, in the near term gas is favourite to make up the shortfall. Societe Generale's analysis suggests that a full withdrawal from nuclear by OECD countries would increase demand for gas by more than 400 billion cubic metres a year by 2045.

In America and Canada the nuclear slack could be taken up by domestically produced gas, Societe Generale reckons, reflecting the sheer scale of the shale-gas revolution there. The rest of the world would either buy liquefied natural gas (LNG) or get gas in pipelines, a prospect that relations with Russia have made irksome to some. Energy-security concerns partly explained why Germany decided to delay its phasing out of nuclear plants. Now it and other European countries may buy a lot more Russian gas. To Russia one of the attractions of continuing with nuclear power is that it frees gas for export.

Yet a gassier Europe may not need to worry too much about security of supply. At least in the near term there is plenty of LNG because capacity originally intended to serve America is no longer needed for that purpose. This is good news for Europe and for Japan, which in the short run needs gas and oil to make up for lost production at Fukushima and other nuclear plants closed in the earthquake's aftermath, regardless of its long-term choices.

Some expect this surplus to last throughout the 2010s, as new sources become available. Others fear, or hope, that the market could tighten quite quickly. Paul McConnell of Wood Mackenzie, another research firm, has argued that for China

to meet a pledged 40% reduction in the carbon intensity of its economy by 2020 would require a lot more gas than currently expected. If nuclear plants contribute less, that will be truer than ever. But though gas supply may tighten, there is still, by all estimates, a lot of it around for the medium to long term.



In the long term we're not all dead

Gas would be an early winner in a less nuclear world. But renewables might also do well. When cheap and plentiful gas replaces coal in electricity generation, it often reduces emissions much more cheaply than renewables can. But when gas replaces nuclear, it increases emissions. Any country serious about tackling climate change will therefore want more fossil-fuel-free generation elsewhere in the system. Renewables would have a clearer run at that segment of the market.

Distressing though it is, the crisis at Fukushima Dai-ichi is not in itself a reason for the world to change energy policy. The public-health effects seem likely, in the long run, to be small. Coal, with its emissions of sulphur, mercury and soot, will continue to kill far more people per kilowatt hour than nuclear does. But as an opportunity to reflect it may be welcome.

An energy portfolio, like any other, is a basket of risks: of security of supply, cost and environmental damage. Fear and uncertainty, which nuclear fission produces as unavoidably as it does iodine-131, distort people's perceptions of those risks. The long-term outlook which nuclear power also brings with it should clarify them.

Over the next 40 years, four things look clear. The world's people would be healthier and its climate less prone to change if it used a lot less coal; that requires greater energy efficiency, more renewable power and better grids, all of which also allow greater energy security; significantly more research would help; and the supply of gas is much larger and more reliable than was thought just ten years ago, which will lower the costs of change. Because nuclear power saves carbon, doing without it would make action on climate harder. But because it increases capital costs and systemic risks, it would rarely have grown that much anyway outside a few countries. It won't go away, but it must to some extent remain a sideshow, however spectacular it looks when it goes wrong.

Index | Finance and Economics

The world economy

From tsunamis to Typhoons

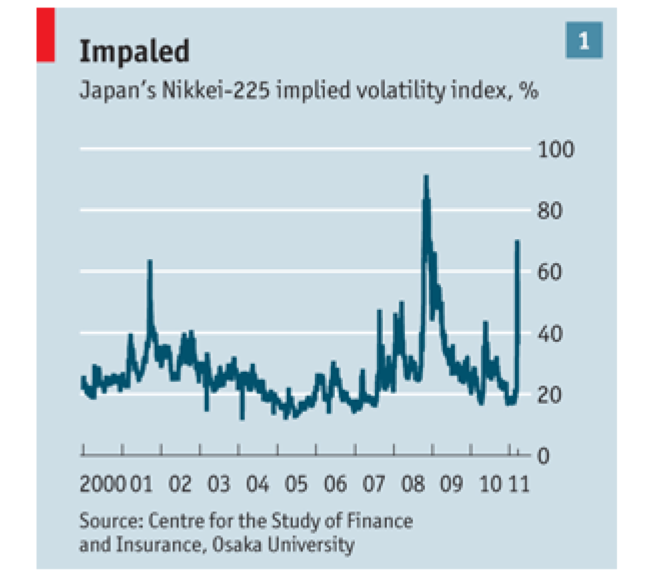
The damage to the world economy from Japan's disaster, Europe's debt crisis and war in Libya is uncertain. That in itself is damaging



FOLLOWING the earthquake and tsunami that struck Japan on March 11th, survivors scrambled for shelter and sustenance. Investors, meanwhile, scrambled for knowledge. Speaking at a London seminar hosted by GaveKal Research, a consultancy, Jonathan Allum of Mizuho International noted how many of his fellow analysts suddenly purported to be experts on seismology, oceanography and nuclear physics. He was more honest about the limits of his own wisdom. "I know quite a lot about economics and finance and I'm pretty good on German progressive rock," he said, but that was about it.

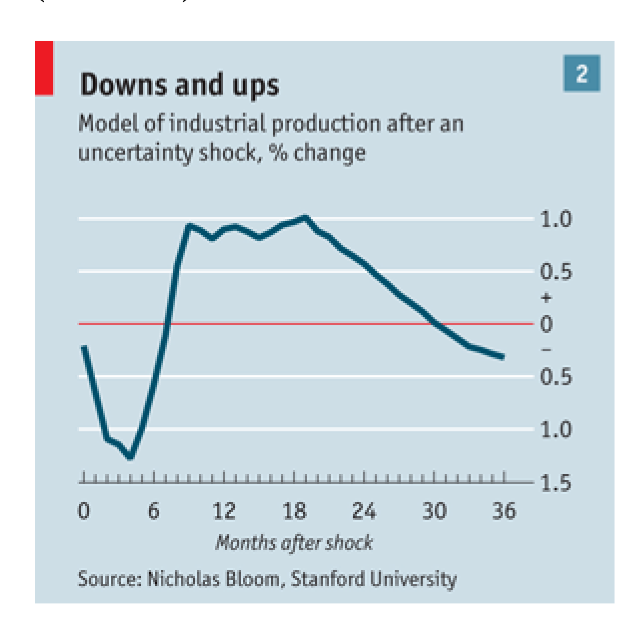
The list of esoteric worries troubling the world's investors is growing. As Western aircraft enforce a no-fly zone over Libya, some of Mr Allum's peers are no doubt waxing lyrical about the payload of the Eurofighter Typhoon. Across the Mediterranean, Europe's debt crisis is still in full swing. Markets fretted about the prospect of a long-expected bail-out for Portugal, after the parliament in Lisbon rejected the minority government's latest austerity measures on March 23rd and the prime minister promptly submitted his resignation. Possible write-downs on Irish bank debt by the new government in Dublin are another concern; so too is the threat that losses will be imposed on private creditors when a permanent European rescue fund starts operating in 2013.

Everyone knows that the disaster in Japan, the violence in the Middle East and the euro zone's fiscal strains are bad for the global economy. But no one knows quite how bad. This lack of clarity can be as harmful as the disruption itself.



An increase in stockmarket volatility is one gauge of uncertainty. The expected volatility of the Japanese stockmarket increased by 224% in the days following the quake, according to the VXJ index (see chart 1), before falling back somewhat. This index, which serves as Japan's fear gauge, surpassed the spike after the September 11th attacks, although it did not match the worst days of the global financial crisis. The equivalent index in America briefly surged, by 46%.

Despite their strong handshakes and leadership training, businessmen are skittish creatures, easily demoralised and deterred. This is quite understandable, given the uncertainties that haunt any commercial venture. In a recent report, Goldman Sachs cite the work of Nicholas Bloom of Stanford University, who has examined the behaviour of firms in the face of 17 "uncertainty shocks", from the Cuban missile crisis to the credit crunch. The spike in uncertainty alone was enough to make businessmen defer decisions about investment and hiring. Industrial production typically drops by about 1% in the first months after an uncertainty shock, Mr Bloom finds, an effect akin to a seven percentage-point hike in interest rates, before rebounding strongly later (see chart 2).



The wobbliness of investor confidence may be one reason for the paradoxical strengthening of the yen (from Â¥83.30 to the dollar to Â¥76.25) in the wake of Japan's disaster. In stressful times people retreat to safer currencies, even if those currencies belong to the country in distress. In any other country a stronger currency might have contributed to the recovery, by directing the economy's energies inward and allowing it to import more resources from abroad. But in Japan, which suffers from a chronic shortfall of domestic spending, a strong yen threatened to erode one welcome source of demand-foreigners-adding to the difficulties Japan's exporters already face in getting their wares to market.

So on March 18th Japan combined with other members of the G7 to push the yen past Â¥80 to the dollar. They probably sold about Â¥2 trillion ($24.7 billion) between them, according to Masafumi Yamamoto, a currency analyst for Barclays Capital. The other members of the G7 may well have no more than Â¥5 trillion left in their foreign-exchange reserves, of which only a third is in cash. Any further intervention may therefore be a solo effort by the Japanese. It could still succeed: a government in control of a printing press should be able to debauch its own currency without needing outside help.

The yen may weaken of its own accord, given Japan's increased need for imports and diminished ability to export. The damage to Japan's buildings and infrastructure could amount to anything from Â¥16 trillion to Â¥25 trillion, according to Japan's government, equivalent to about 3-5% of Japan's GDP. But that figure does not include a variety of wider, fuzzier costs.

The disaster has reduced Tokyo Electric Power Company's capacity to about 34 gigawatts, 20-30% short of peak demand at this time of year, forcing the utility to schedule power cuts. If the cuts last for three months, it could depress manufacturing output by almost 14%, or Â¥5 trillion, says Kyohei Morita of Barclays.

The loss of power is compounded by a loss of consumer confidence, both at home and abroad. "The most troublesome thing is harmful rumours and the psychological effect [on consumers] as a result of radiation concerns," says Kaoru Yosano, the economy minister. Shangri-La Asia, which runs 71 luxury hotels around the world, has temporarily stopped importing fresh food from Japan, according to Bloomberg News. The chances that any customer would eat radioactive fish or vegetables from Japan are negligible. But the chance that they would think about radiation when eating Japanese produce is almost 100%. That in itself may be enough to spoil their enjoyment of the food.

Even as they rebuff some products, Japan's foreign customers are scrambling to get hold of others. The price of memory chips has jumped. General Motors has suspended production at a factory in Louisiana due to a shortage of Japanese parts. Many of the cars people buy and electronics people use have a bit of Japan inside them, even if they are sold under other countries' brands, says Mr Allum. Judged by their imports of electrical machinery and transport equipment, Thailand, Singapore and Taiwan are most exposed to disruptions in this supply chain.

As the Japanese economy recovers, some of its trading partners will hope to benefit from its rebuilding boom. Exports from Malaysia, which include plywood and veneers, surged in the year after the 1995 Kobe earthquake. In the long run Japan will also replace its shortfall of nuclear power with larger imports of gas, boosting the fortunes of countries like Brunei and Qatar. But in the short run it will have to burn more oil: at least 300,000 barrels per day (bpd) more, according to the Centre for Global Energy Studies in London.

That will add to the upward pressure on oil prices, which have risen to $115 for a barrel of Brent crude for delivery in a month's time, up by 25% since the start of the year. Oil-price shocks are at least wearily familiar. Libya's fate is hard to predict but the economic uncertainties boil down to a hoary question: how much is Saudi Arabia, the linchpin of OPEC, the oil-exporters' cartel, able and willing to pump?



When Iraq invaded Kuwait in 1990, the Saudis pumped more oil, and when the Venezuelans downed tools in 2002, the Saudis did the same (see chart 2). They seem to be trying to repeat the trick now: according to Oil Movements, a consultancy, westbound shipments from the Middle East have increased by 200,000 bpd since January. But Saudi spare capacity is not what it was: enough to make up for the loss of Libya, but not the loss of Libya and Algeria combined. If unrest in Bahrain spread to eastern Saudi Arabia, some think the oil price could reach $200 a barrel.

Faced with the uncertainties of life, John Maynard Keynes argued that businessmen rely on the convention that the "existing state of affairs will continue indefinitely". The events of recent weeks have shaken that cosy assumption.

Worst-case scenarios

Fat-tail attraction

Investors' interest in hedging tail risk is growing



Is it a bird, an extreme event or a cliche?

"TAIL-RISK" hedging was the talk of Wall Street in 2008 after global markets nosedived and traumatised investors tried to figure out how they could protect themselves from extreme or "black swan" events-those well outside an ordinary distribution of outcomes-that cause massive losses. Interest is revving up again as revolutions in the Middle East and Japan's earthquake have destabilised markets and increased volatility, leaving battered investors searching anew for protection.

Peddlers of tail-risk products like to compare them to insurance: investors pay premiums every year to avoid financial catastrophe later. Some even get philosophical. Vineer Bhansali of PIMCO, a big fund manager, has likened tail risk to Pascal's wager-the argument that you're better off believing in God than suffering the consequences of being wrong. The same is true with drastic dives in markets.

Tail risk is technically defined as a higher-than-expected risk of an investment moving more than three standard deviations away from the mean. For mere mortals, it has come to signify any big downward move in a portfolio's value. There are different ways to hedge tail risk, but a popular one is to create a basket of derivatives that will perform poorly during normal market conditions but soar when markets plunge. These include options on a variety of asset classes, such as equity indices and credit-default-swap indices.

Some banks have started to sell tail-risk products. Deutsche Bank has created the ELVIS index, which generates returns when stockmarket volatility increases. Big asset managers like BlackRock and PIMCO have made a business of advising customers on managing for the worst case. Hedge funds have also got in on the act. Several "tail funds", which invest in assets that should rise in bad economic times, have started up in the past few years. These funds tend to lose around 15% each year when the market is normal but can return 50-100% when the market dives. Or more: 36 South, a hedge fund, saw its tail fund gain 234% in 2008. According to Gaurav Tejwani of Pine River, which launched a tail-risk fund last year that now manages over $200m, "It costs money in most good years or average years, but it makes you a fairly large return when all your other assets are performing very poorly."

Sellers naturally claim it is worth the cost. Mr Bhansali of PIMCO, which offers several tail funds, estimates that it costs investors between 0.5% and 1% of assets to hedge against tail risk, but that investors will break even in three to five years. That is partly because the market does not have to crash in the way that it did in 2008 for hedges to pay their way. PIMCO now oversees around $30 billion in tail-risk products, mostly in separate accounts. Other funds have also seen inflows. Take, for example, Universa Investments, a tail fund advised by Nassim Taleb, author of "The Black Swan", which has grown from $300m in 2007 to around $6 billion today.

Even so, Mark Spitznagel, the boss of Universa, complains about complacency among investors. Demand is very uneven. The price of hedging varies, rising when markets are volatile and investors most need it, and declining during bull markets. It is difficult, after all, to keep stomaching losses from hedged positions as markets rise: "The kids outside playing in the snow without sweaters and scarves seemed to have much more fun than those of us who were bundled up," says Steven Englander of Citigroup.

Index | Finance and Economics

Buttonwood

Marx, Mervyn or Mario?

What is behind the decline in living standards?



ARE you better off than you were two years ago? Although the economic recovery in the developed world is almost two years old, the average Westerner would probably answer "No".

The authorities have applied shock and awe in the form of fiscal and monetary stimulus. They have prevented the complete collapse of the financial sector-bankers' pay has certainly held up just fine. The corporate sector is also doing well. Even if banks are excluded, the profits of S&P 500 companies were up by 18.7% last year, says Morgan Stanley.

But the benefits of recovery seem to have been distributed almost entirely to the owners of capital rather than workers. In America total real wages have risen by $168 billion since the recovery began, but that has been far outstripped by a $528 billion jump in profits. Dhaval Joshi of BCA Research reckons that this is the first time profits have outperformed wages in absolute terms in 50 years.

In Germany profits have increased by euro113 billion ($159 billion) since the start of the recovery, and employee pay has risen by just euro36 billion. Things look even worse for workers in Britain, where profits have risen by pound14 billion

($22.7 billion) but aggregate real wages have fallen by pound2 billion. A study by the Institute for Fiscal Studies, a think-tank, found that the median British household had suffered the biggest three-year fall in real living standards since the early 1980s.

Are these trends a belated vindication of Karl Marx? The bearded wonder wrote in "Das Kapital" that: "It follows therefore that in proportion as capital accumulates, the situation of the worker, be his payment high or low, must grow worse." But Marx also predicted a decline in profit margins in capitalism's dying throes, suggesting some confusion in his analysis.

A more positive view of this divergence between capital and wages is that developed economies had become too dependent on consumption and had to switch to an export- and investment-led model. That was the view of Mervyn King, the governor of the Bank of England, when he said in January that "the squeeze in living standards is the inevitable price to pay for the financial crisis and subsequent rebalancing of the world and UK economies."

That reasoning might work for Britain and America. But it is hard to apply to Germany, where unit labour costs have been held down for a decade and where, if the economy does need to be rebalanced, it is arguably in favour of consumption.

There is also a longer-term trend to explain. Wages still account for a much greater slice of income than profits, but labour's share has been in decline across the OECD since 1980. The gap has been particularly marked in America: productivity rose by 83% between 1973 and 2007, but male median real wages rose by just 5%.

The decline in labour's share has also been accompanied by an increased inequality of incomes, something that economists have struggled for years to explain. Mean wages, which include the earnings of chief executives and sports stars, have risen much faster than the median. This premium for "talent" may reflect globalisation as the elite are able to move to the countries where their skills are most appreciated. Or it may reflect changes in technology, which have generated outsize rewards for those people most able to take advantage of them.

An alternative explanation has been to blame the decline in trade-union membership. In the 1960s and 1970s powerful unions in manufacturing industries like cars were able to demand higher wages. But high-paying blue-collar jobs have been in decline since then. John Van Reenen, the director of the Centre for Economic Performance at the London School of Economics, reckons that privatisation has also led to a decline in labour's share of the cake. Managers of newly privatised industries tend to lay off workers as their focus shifts from empire-building to profit maximisation.

One factor that should perhaps get more emphasis is the role of the financial sector. Central banks have repeatedly cut or held down interest rates over the past 25 years in an attempt to boost bank profits and prop up asset prices. With this subsidy in place, is it surprising that earnings in finance have outpaced wages for other technologically skilled jobs?

Attempts to remove that subsidy are met by threats from international banks to move elsewhere. This is a little reminiscent of the protection rackets run by the gangsters in Mario Puzo's "The Godfather". It is as if the finance sector is saying: "Nice economy you got there. Shame if anything should happen to it."

Economist.com/blogs/buttonwood

Index | Finance and Economics

Banks' dodgy assets

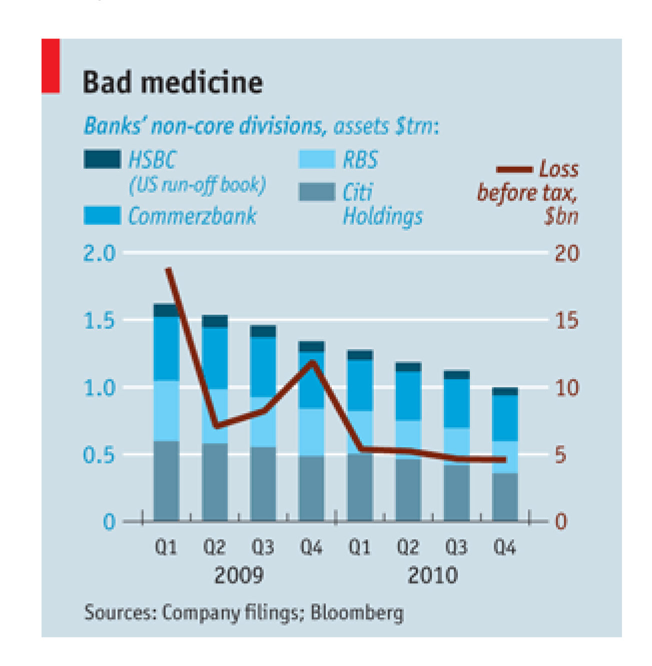
Taking out the trash

The lingering toxicity of banks' balance-sheets

WASTE disposal is still a big part of post-crisis banking. A large amount of toxic securities and loans remains on banks' balance-sheets. After its bail-out Citigroup, for example, split itself into a "good bank" and a "bad bank" for operational purposes. The nasty bit still represents a fifth of the firm's assets and accounts for a third of its capital requirements. Two

other rescued firms, Royal Bank of Scotland and Commerzbank, took a similar approach. Add in HSBC, too, which was not bailed out but which is running down a ringfenced portfolio of consumer and housing loans in America, and the total "bad-bank" assets in these four firms alone amount to nearly $1 trillion.

The number of bad banks is actually going up. Bank of America announced this month that it would set up a new unit to manage the firm's soured mortgages. Many other firms have fiddlier arrangements. KBC, a bailed-out Belgian firm, still has some euro25 billion ($36 billion) of notional exposure to collateralised-debt obligations, although it says these are largely written off or covered by a specific state guarantee. Barclays has an off-balance-sheet vehicle called Protium into which it dumped some $12.3 billion of risky assets.



Bad banks are partly about slick presentation. Shareholders and creditors still own a single firm but feel more confident if they can see a consistently profitable division within it. Segregating assets can also concentrate managers' minds on the task of getting rid of the rubbish. Taking Citigroup, RBS, Commerzbank and HSBC together, bad-bank assets have fallen from $1.6 trillion in early 2009 to almost $1 trillion. Quarterly pre-tax losses on these holdings have dropped sharply (see chart).

The job is not done yet. Two years ago the hits came mainly from securities that had to be marked to market. Now those same instruments are producing modest profits for some firms, such as Commerzbank. The bulk of losses today are from commercial-property and consumer loans. Most firms expect continued heavy write-downs this year but an improvement thereafter: RBS, for example, reckons its bad bank has now recognised some 50-75% of the impairments the assets are expected to generate. But it is possible that losses could start rising again.

The bigger concern is the time it takes to clean things up. Based on its experience last year, Citi's bad bank shrinks by only about 10% a year of its own accord as assets mature. RBS has suggested a similar rate of natural decline. So far most firms have achieved far faster rates of reduction by restructuring and selling bad assets, but some worry that the easy gains have now been made. HSBC has indicated that the sluggish American housing market will mean its portfolio may shrink more slowly that it once hoped, for instance.

Looming over all of this are the new capital rules. The unspoken goal of almost all firms is quickly to offload the remaining dodgy assets on their balance-sheets, thus releasing capital, to offset the higher overall capital standards being imposed on them. But the rate of natural shrinkage of their bad banks is low and the remaining dud assets are hard to sell at reasonable prices. They're called toxic for a reason.

Index | Finance and Economics

Deutsche Bank on trial

Rhyme and reason

Germany's highest court censures its biggest bank

THE verdict matters much more than the punishment. On March 22nd the Federal Court of Justice in Karlsruhe ordered Deutsche Bank to pay euro541,074 ($768,942) damages, plus interest, for failing to advise a middle-size client on the true risk of a complex swap transaction. Hardly life-threatening for Germany's biggest bank, but sobering for the industry.

"Ille Papier-Service brings Deutsche Bank to its knees", crowed the plaintiff, a small paper company based near Frankfurt, on its website. Ille had twice been on the wrong side of decisions in lower courts but this time the judges "understood the nature of the transaction", said Jochen Weck of Rossner, the company's lawyers.

Ille's deal, one of hundreds of interest-rate swaps that Deutsche sold up and down the country between 2002 and 2006, involved a bet on the difference between two-year and ten-year Euribor interest rates. Deutsche's fixed-rate payments to the company were netted against Ille's payments to the bank, which were based on the interest-rate difference, spiced by a multiplier. If the interest-rate spread widened the company gained on the deal; if the spread narrowed, or turned negative, its losses grew exponentially and were theoretically unlimited.

The court ruled that Deutsche's health warnings to Ille were inadequate and played down the risk of loss. "If you are able to read the words of a poem, you haven't necessarily also understood its meaning," mused Ulrich Wiechers, the presiding judge.

The court also held that there was a conflict of interest, since Deutsche was both advising the client and, in effect, betting against it. As a result, the judges added, the bank should have told the customer how much the deal was worth to Deutsche from day one. In Ille's case it was around 4% of the contract's notional principal, or euro80,000, according to expert calculations. A lawyer for Deutsche Bank warned in February that disclosing such profits could unleash a second financial crisis, if clients felt they could challenge any complex deal that had lost them money. The judges clearly were not persuaded.

The federal court will give a fuller, written judgment in a few weeks. That may help the 24 other plaintiffs with similar cases pending to reach a settlement with Deutsche Bank, but it will not help the dozens of other disgruntled customers who missed a three-year deadline from the signing of contracts to file suit.

Shareholders seem relatively sanguine: Deutsche's shares closed 0.7% lower on the day of the ruling. A statement from Deutsche after the federal court's judgment said the amount at stake in the various relevant actions against the bank is "very limited". The bank's recent annual report does not even list these cases among the legal proceedings it faces; Josef Ackermann, the chief executive, has never publicly discussed the bank's role in these cases.

The bigger question raised by this case and others like it-such as the charges brought against Goldman Sachs by the Securities and Exchange Commission last year for allegedly duping clients into buying structured mortgage-backed securities-is about the duty of care that banks owe to their customers, and the responsibility that clients bear for the choices they make. Goldman has since drawn up new standards of business, which make distinctions between professional investors and less sophisticated customers, such as municipalities, which require more hand-holding. Whether Deutsche sees a similar need to change is not yet clear.

Index | Finance and Economics

Economics focus

Stomach staples

People's spending choices are a good way to assess levels of hunger



FOR most people in rich countries hunger is a temporary inconvenience, easily solved by popping out to the shops or raiding the fridge. But chronic hunger is part of everyday life for many people in poorer places. Halving the proportion of people in developing countries who do not get enough to eat is one of the United Nations' Millennium Development Goals.

Reducing hunger is a complicated task. There is no global shortage of food. Less poverty does not always mean better-nourished people. In India, for example, real incomes rose and the price of food fell between 1980 and 2005. Yet evidence suggests that Indians, even those who were originally eating less than recommended, reduced their calorie consumption in that time. Such findings have long puzzled economists.

A recent paper* by two economists, Robert Jensen of the University of California, Los Angeles, and Nolan Miller of the University of Illinois, Urbana-Champaign, suggests that part of the problem may lie in the way governments and international agencies count the hungry. This typically involves fixing a calorie threshold-2,100 calories per day is a common benchmark-and trying to count how many people report eating food that gives them fewer calories than this number. Since calorific needs differ from person to person, a universal number is clearly only a guide. What's more, concentrating on calories ignores the important role of micronutrients such as minerals and vitamins (see article). But the economists argue that this approach to measuring hunger also does not accord with how people themselves think about it. They propose a new way to use people's eating choices to tell whether they are hungry.

Hunger is a physically unpleasant experience: it is accompanied by headaches, pain, dizziness, loss of energy and an inability to concentrate. For a hungry person, therefore, the extra utility from more calories is extremely high. The economists argue that the pain caused by hunger will prompt insufficiently nourished people to spend a larger share of their food budget on staples like rice and millet, which are cheap sources of calories. But once people are no longer hungry, they do not need to spend their incremental cash on the cheapest source of calories but can base their choices on things like variety and taste. This means that the share of calories that comes from staples falls progressively once a person is no longer famished; and that an unusually high share of calories coming from staples indicates that a person is hungry.

How high is unusually high? By looking at the prices of various foods, it is possible to work out what share of a person's calories would come from staples such as rice and wheat if he were trying to fulfil his dietary needs as cheaply as possible. This theoretical "staple calorie share" (SCS) can then be compared with the make-up of a person's actual diet. Someone who is consuming a significantly higher share of calories from staple foods than predicted is likely to be hungry.

This approach would be far too cumbersome if each person's SCS varied greatly but things turn out to be considerably simpler. Using accepted dietary guidelines for people of various sizes and ages, and data on food prices for parts of China, the authors find that the share of calories that ought to come from staples varies much less than overall calorific needs. Wide variations in people's age, sex, physical condition and lifestyle (more exercise, say) mean that some people need as little as 2,112 calories per day, while others may require as many as 3,202 calories. But the authors find that most calculated SCSs remain in a narrow band between 80% and 85% of overall calories. What this suggests is that someone getting less than 80% of his or her calories from a staple is past the point where conquering hunger is the primary motivation driving food purchases.

The economists use this threshold to measure the extent of undernourishment in nine Chinese provinces, where 16,000 individuals in 3,800 households were surveyed several times between 1991 and 2000. The people who were surveyed had to report everything they had eaten or drunk the previous day. The survey data conformed with the basic idea of substitution: the poorest households ate little other than staples. As income rose above a certain level, however, the SCSs dropped. People seemed to move out of the danger zone once their monthly income exceeded 225 yuan ($27 in 2000).

Pulse taking

The data show how many people get less than four-fifths of their calories from rice, the main staple in most of the areas studied. Here, the results contradict what the Chinese government's standard 2,100-calorie-per-day threshold would find. Around 67% of households in the sample were undernourished by the standard measure in 2000, but only 32% got more than 80% of their calories from staples. This is a big difference. Using data on people's choice of what to eat leads to an estimate of hunger that is about half as large as the estimate using the standard method.

The two measures also give opposing results about long-term trends in hunger. The average household in the sample got richer between 1991 and 2000, but the fraction that consumed less than the mandated daily number of 2,100 calories actually rose, from 53% to 67%. The share of calories coming from staples points in a different direction, however: by this measure, the number of hungry households dropped from 49% to 32% over this period. More recent evidence suggests something similar. A 2008 study found that giving poor Chinese households subsidies on staple cereals failed to lead people to consume more rice or wheat. Instead, they ate more shrimp and meat. Not necessarily the cheapest source of calories, but considerably tastier.

* "A Revealed Preference Approach to Measuring Hunger and Undernutrition" by Robert Jensen and Nolan Miller.

Index | Finance and Economics

Marjorie Deane internships

Applications are invited for *The Economist*'s 2011 Marjorie Deane internships. Financed by the Marjorie Deane Financial Journalism Foundation, the awards are designed to provide work experience for a promising journalist or would-be journalist, who will spend three months at *The Economist* writing about economics and finance. Applicants are asked to write a letter introducing themselves, and an original article of no more than 500 words that they think would be suitable for publication in this section. Applications should be sent to deaneintern@economist.com by April 15th 2011.

Index | Science & Technology

A new domain of life

Plenty more bugs in the sea

Tantalising evidence is emerging of a serious gap in biologists' understanding of the diversity of life on Earth



LIFE, like Caesar's Gaul, is divided into three parts. The Linnaean system of classification, with its prescriptive hierarchy of species, genus, family, order, class, phylum and kingdom, ultimately lumps everything alive into one of three giant groups known as domains.

The most familiar domain, though arguably not the most important to the Earth's overall biosphere, is the eukaryotes. These are the animals, the plants, the fungi and also a host of single-celled creatures, all of which have complex cell nuclei divided into linear chromosomes. Then there are the bacteria-familiar as agents of disease, but actually ecologically crucial. Some feed on dead organic matter. Some oxidise minerals. And some photosynthesise, providing a significant fraction (around a quarter) of the world's oxygen. Bacteria, rather than having complex nuclei, carry their genes on simple rings of DNA which float around inside their cells.

The third great domain of life, the archaea, look, under a microscope, like bacteria. For that reason, their distinctiveness was recognised only in the 1970s. Their biochemistry, however, is very different from that of bacteria (they are, for example, the only organisms that give off methane as a waste product), and their separate history seems to stretch back billions of years.

But is that it? Or are there other biological domains hiding in the shadows-missed, like the archaea were for so long, because biologists have been using the wrong tools to look? That is the question asked recently by Jonathan Eisen of the University of California, Davis, and his colleagues. They suspect there are, and in a paper just published in the *Public Library of Science*, they present an analysis which suggests there might indeed be at least one other, previously hidden, domain of life.

What I did on my holidays

The data from which this conclusion was drawn were collected between 2003 and 2007 on one of the most scientifically productive holidays in history. This was a round-the-world cruise taken by Craig Venter on his yacht, *Sorcerer II*, which studied the diversity of micro-organisms in the Atlantic, Pacific and Indian oceans.

Dr Venter was working out his frustrations after having been fired in 2002 from Celera Genomics, a company he helped set up in 1998 with the specific aim of sequencing the human genome faster and better than the public Human Genome Project was managing at the time. In that, it succeeded. In the wider aim of turning such knowledge into hard cash, however, it was nowhere near as successful as its financial backers had hoped. Dr Venter therefore found himself with more time on his hands than he had been planning.

His killer app in Celera's assembly of the human genome was a technique called shotgun sequencing. This first shreds a genome into pieces small enough for sequencing machines to handle, then stitches the sequenced pieces back together by matching the overlaps using a computer. In principle, he realised, that trick could be used on mixed DNA from more than one organism. A good enough program would stitch together only fragments from the same type of creature. This would

allow you to see what was living in a sample without having to culture anything. And since a huge majority of micro-organisms (by some estimates, 97%) cannot be cultured, that sounded like a great idea.

Metagenomics, as the new technique is known, has vastly extended knowledge of what bugs live in the sea-and in many other places, from hot springs to animals' guts. It is not perfect. In practice a lot of what emerges are fragments of genomes, rather than complete assemblies. But it has been enormously successful at identifying previously unknown individual genes.

Dr Eisen wondered if it could be pushed still further. He started combing through the data from the cruise to look for new forms of genes that have, in the past, proved useful in distinguishing bacteria, archaea and eukaryotes from each other, to see if there are any other domains of life out there. After a false start pursuing what are known as ribosomal RNA genes-which are involved in protein synthesis and are believed by some people to be the genetic core around which the rest of life accreted-he lighted on two genes called *RecA* and *RpoB*. *RecA* is involved in DNA recombination. *RpoB* is involved in translating DNA into RNA. Both, like the genes for ribosomal RNA, are old and ubiquitous. And lo, when he drew trees that tracked the evolutionary relationships between all the *RecA*s and all the *RpoB*s found on the cruise, he discovered parts of the trees that did not fit with the pattern established by known versions of these genes in the public genetic databases.

Some of these novel branches were, nevertheless, similar enough to known branches to be accounted for as known unknowns. But both *RecA* and *RpoB* had one branch that really was an unknown unknown. Neither of these branches fits in the existing tree of life. And that is a mystery. It may be that they belong to some as-yet-uncharacterised group of viruses (entities classified outside Linnaeus's system, since there is no agreement about whether they are alive or not). Or it may be that they belong to a fourth domain of living organism. Either way, it suggests a profound lacuna in biologists' understanding of the world. The question is, is it a big lacuna as well as a deep one? Is the new group an important part of the biosphere?

That is hard to say at the moment. The genes concerned are rare in the overall metagenomic analysis, so creatures carrying them may not be abundant. On the other hand, those creatures might just be too small to be caught easily by the filters used to winnow life from water for analysis in the first place.

As to importance, when originally identified as distinct, the archaea, too, were regarded as marginal-yet their methane-generating properties are now a factor in climate-change calculations. If the new domain is real, it must have been around for several billion years, and must thus have something going for it. What that something is remains to be seen.

Index | Science & Technology

Seismology and tsunamis

Making waves

A better tsunami-prediction system is now under development



Next time, they might see it coming

GEOLOGISTS have long known that some marine earthquakes generate fierce tsunamis and some do not. But, as the situation in Japan makes painfully clear, there is no good way for people being tossed around by a tremor to know the difference until a wave arrives. A new earthquake-monitoring system developed by Andrew Newman and Jaime Convers at the Georgia Institute of Technology may, however, help to change that.

During an earthquake, the Earth's crust is uplifted. If the epicentre is on the seabed, that also lifts the water above the bed, creating a wave. However, the size of this wave varies with the nature of the uplift.

For tsunami-generating purposes, earthquakes can generally be divided into two sorts. Deep ones (as a rule of thumb, those below 20km, or 12 miles) generate small or non-existent tsunamis because their uplifting effects are absorbed by the overburden. Shallow ones (above 20km), whose full crust-displacing force is felt at the surface, are the danger. The problem is deciding which is which. Once all the data are in, an earthquake's depth can be worked out with reasonable accuracy. But that takes time. The recent Japanese quake, for example, was thought initially to have happened 83km down. The latest measurements suggests its depth was actually 30km. Normally, that would still put it in the class of safe earthquakes, but it was so powerful that the usual rules did not apply.

The secret of the new method is that depth changes an earthquake's character in ways other than just its tsunami-generating propensity. The rupture in the rock that causes a deep earthquake propagates rapidly-at about 3km a second. A shallow rupture moves more slowly: 11/2km a second is common. The speed seems related to the rigidity of the rock that is rupturing, and deep rock, which is under more pressure, is more rigid. Shallow rocks bend, and that slows the rupture down. The effect is to give seismologists a tool they can use to make an instant estimate of an earthquake's depth and thus, if it is submarine, the risk of its creating a big tsunami.

The system Dr Newman and Mr Convers have developed taps into hundreds of seismic monitoring stations around the world. When an earthquake is detected, the software immediately looks at the size of the tremor and the location of its epicentre. If the quake's magnitude is greater than 6.5 and the epicentre is underwater, it then requests information from the relevant stations on how long the earthquake took from beginning to end. That allows it to work out how quickly energy was released by the earthquake, and thus how fast the rupture propagated. An energy-release rate indicating a rupture rate of 11/2km a second or less sets the alarm bells ringing, for the earthquake has probably spawned a tsunami-though the system is also sensitive to the actual earthquake magnitude, and adjusts accordingly, so it did not miss the tsunami-creating potential of the Japanese earthquake either.

The two researchers tried their invention out last year and analysed a great many quakes, including one of magnitude 7.8 that happened on October 25th in western Indonesia. The epicentre was 70km from the Mentawai islands, and the quake was felt there only weakly. But it still raised a devastating tsunami (see picture above) that killed more than 400 islanders.

The system quickly detected this quake and the two researchers reported recently in *Geophysical Research Letters* that it automatically identified the tsunami threat 81/2 minutes after the earthquake began. It then ran a series of checks, and after

161/2 minutes was completely certain that conditions were right for a tsunami to form. Since it took 35 minutes for the tsunami to come ashore, the system could, had it been used to sound the alarm, have given people 181/2 minutes to flee. Unfortunately, it was not then attached to any sort of alarm that could let the Mentawai islanders know that they were in danger.

With luck, such a lack of warning will not happen again. By the summer the system should be hooked up to alarms around the world, and will be able to determine tsunami risk within seven minutes of a shock being detected. It will then be up to local authorities to have evacuation plans in place. But they will no longer be able to say they did not see it coming.

Index | Science & Technology

Battery technology

Highly charged

A powerful experimental battery that can be recharged completely in minutes

ENGINEERS have long dreamed of shortening the time it takes to recharge batteries. Currently, that can be hours. For applications like motor vehicles it really needs to be reduced to minutes. Now Paul Braun and his colleagues at the University of Illinois, Urbana-Champaign, have succeeded in building prototype batteries which do just that. Their most successful attempt can be recharged almost fully in a mere two minutes.

All batteries, no matter what their exact composition, work in the same fundamental way. They have two electrodes, an anode and a cathode, that are connected by an electrically conductive material-generally a liquid-called an electrolyte. When a battery is discharging, electrons (which are negatively charged) flow from anode to cathode through an external circuit, where they are put to work, and positively charged ions flow from anode to cathode through the electrolyte, to balance the charges in both electrodes. During recharging, electrons are forced round the circuit in the opposite direction, and the ions, perforce, return whence they came.

Many materials can be used as positive ions in batteries, but lithium has become popular in recent years because it is light and, weight for weight, lithium batteries thus store more energy than any other kind. Before that, nickel-metal hydride batteries were preferred for many applications. Even now, they are cheaper than lithium-ion batteries and they, too, are still widely used. Dr Braun therefore decided to have a go at making rapidly chargeable versions of both.

The battery-maker's dilemma is that the recharging rate depends on the area of contact between electrolyte and electrode. A thin, sandwich-like arrangement, in which cathode, electrolyte and anode are close together, can thus be discharged and recharged rapidly. However, this speed comes at a price. The amount of energy a battery can store depends on the volume of its electrodes, so a thin battery does not last long. What is needed is a way to increase contact area without sacrificing volume. And that is what Dr Braun has found. Moreover, his solution looks suitable for mass production.

His starting material, as he describes in a paper in *Nature Nanotechnology*, is made of closely packed polystyrene spheres about a millionth of a metre in diameter. This is an arrangement similar to that found in opal (except that in opal the spheres are made of silica) and the result is, indeed, opalescent.

The next stage is to fill the gaps between the spheres with nickel. This is done by electrodeposition-like nickel-plating a piece of steel. After that, the material is heated, to melt the polystyrene. This leaves a sponge made of metallic nickel. The connections between the spherical gaps in the sponge are then enlarged, using a technique called electropolishing to dissolve the surface layer of the metal. This creates an electrically conductive framework suitable for smothering with materials normally used to make cathodes.

For the nickel-metal hydride version of the battery, that material is a substance called nickel oxyhydroxide. For the lithium-ion version, it is manganese dioxide spiked with lithium ions. In both cases these are electroplated onto the structure before the remaining gaps are filled with liquid electrolyte.

The result is a huge area of contact between the nickel (which conducts electrons to and from the battery), the cathode (which conducts ions to and from the electrolyte to compensate for the movement of those electrons), and the electrolyte (through which the ions are moving between cathode and anode)-but without a significant loss of cathode volume. Just, in other words, what the doctor ordered.

The consequence, according to Dr Braun, is a charging rate ten to 100 times higher than that of a normal, commercial battery (in one instance, the researchers created a lithium-ion battery that could be 90% recharged in two minutes), at a probable increase in production cost, once the process is properly industrialised, of 20-30%. And that rate might be improved still further if similar techniques were applied to the anode-a task that Dr Braun is now working on.

It is not quite as simple as that. Somehow, it never is. To take advantage of fast-charging batteries, a car's electrics will have to be hardened up to cope with the huge amperage involved. If they can be, though, it would allow electric cars to be recharged on the road in the same amount of time that a driver now spends putting petrol in his tank. And at that point the other advantages of electric motors (mechanical simplicity, huge acceleration and silent running) would probably trump the old-fashioned internal-combustion engine in the minds of most motorists, and the long-promised revolution of electric motoring might finally come to pass.

Dating stone tools

Tooled up



The diffusion of technology is crucial to human development, and that was as true in the stone age as it is now. These tools are examples of a Palaeolithic technology called the Acheulian. It was invented in Africa by *Homo erectus* about 1.6m years ago and then spread to populations of *erectus* in other parts of the world. The speed of that spread, however, is unclear-or, rather, was. For a paper published this week in *Science* by Shanti Pappu of the Sharma Centre for Heritage Education, in Chennai, and her colleagues suggests they reached India far faster than had been thought. The tools in question come from Attirampakkan, in Tamil Nadu, and have been dated to at least 1m years ago, probably 1.5m and possibly 1.6m, using a combination of the effects of cosmic rays on the stones themselves and a study of the magnetic polarity of the soil they were found in, which reflects datable reversals in the direction of the Earth's magnetic field. The range of dates is testament to the uncertainty of the methods involved, but all are much older than previous estimates of the ages of Acheulian tools in India.

Art in the Middle East

Foment of the moment

Even at art fairs democracy is hard to sweep under the carpet



Kader Attia/ Barjeel Art Foundation

THE citizens of the United Arab Emirates (UAE) do not enjoy a vote but they relish a bit of artistic agitation. Earlier this month, Art Dubai, a fair, coincided with the preview of a sprawling group show, the Sharjah Biennial. In the lush ballrooms of Dubai's Madinat Jumeirah hotel, around 80 galleries from more than 30 countries exhibited their wares. A half-hour drive north, in the bookish, alcohol-free emirate of Sharjah, three curators had installed the work of artists from 36 nations in a range of ruins and cultural heritage buildings as part of a show called "Plot for a Biennial". For a short while the two emirates were the hub of the contemporary art world.

On March 14th, as the shows were about to open, the political unrest sweeping the Middle East drew in the UAE. Along with Saudi Arabia, the Emirates sent troops to Bahrain. An uncomfortable question pervaded the art-filled rooms: how do contemporary art and democracy connect? The answer is not entirely obvious.

The offerings at Art Dubai suggested that political art in the Middle East may well fill the void left by the nudes and sexy bachelor-pad art that litter so many fairs elsewhere. A number of galleries showed politicised work and a few even devoted whole stands to the recent uprisings. Artspace, a Dubai gallery that represents many Egyptian artists, changed the concept of its booth at the last minute, opting for colourful representational paintings that its director described as "a testament to freedom and the spirit of revolution".

This only went so far. The fair's patron is Sheikh Mohammed Bin Rashid al-Maktoum, the ruler of Dubai. In advance of his arrival, a member of his entourage visited every booth to make sure that nothing might cause offence. The censor proved to be more tolerant this year than last, objecting to just one work rather than three.

Yet the lone offender said much about UAE sensitivities. Installed on the stand of the Parisian Galerie Hussenot, "The Lost Springs" by Mounir Fatmi consisted of a row of national flags. Whereas the Tunisian and Egyptian flags were held up by brooms, the other Middle Eastern flags, including those of the UAE, Qatar, Saudi Arabia, Iran and Bahrain, were hung on the wall. The sculpture was wonderfully puzzling. Should old regimes be brushed away? Will the new democracies be cleaner? Despite the ambiguity, Galerie Hussenot was instructed to remove the brooms every time a dignitary walked past.

Up the dusty highway, the Sharjah Biennial also exhibited a range of different political work. The star of the show and a winner of the Sharjah Biennial prize was Imran Qureshi, an artist based in Lahore. "Blessings Upon the Land of My Love", a floor painting, evoked the violence of Pakistan's troubled parliamentary republic. In a large brick-lined courtyard, Mr Qureshi created a crime scene-at once both horrifying and beautiful-in which red paint was used to look like pooling blood or life-affirming foliage. "The role of art is not miraculously to right all the wrongs of the world," said Suzanne Cotter, one of the biennial's curators. "It is about recognising the world's complexity."

A handful of artists who weren't exhibiting in the biennial complicated its official opening by distributing flyers bearing the names of the people killed in Bahrain. Public protest is illegal in the UAE but the activists (none of whom was an Emirati) claimed it was an artwork. The local police arrested them before they could make much of an impact. They were questioned for half a day before being released.

Jack Persekian, director of the Sharjah Art Foundation, was philosophical about the disruption. "Artists, like other intellectuals, question taboos, challenge norms, bring enlightenment," he said. Mr Persekian, who describes himself as a Palestinian-Armenian-American-Arab, is well versed in walking political tightropes. His boss is Hoor Al-Qasimi, the daughter of Sharjah's ruler who, in a gesture of art-world egalitarianism, dropped her *sheikha* title from her byline in the show's catalogue. She made no comment about the protest, but in her preface to the catalogue she advocated the importance of doubt and the "necessity of progress".

Much of the art in the biennial tended to whisper rather than shout its democratic leanings. But "Strike Oppose", an exhibition at the nearby Barjeel Art Foundation, displayed more confrontational works, including Kader Attia's neon piece (see picture above) from the private collection of Sultan Sooud al-Qassemi. A cousin of Sheikha Hoor, Mr al-Qassemi has never used his *sheikh* title. "Arab artists are in touch with the people," he said. "Their work reflects the emotions of the street before state media or government can do so."

There was more political art on view in these Emirati shows than you would ever see at the Basel Art Fair or Venice Biennale, some of it even quite strident. Contemporary artists around the world insist on their independence and their right to free speech. These shows marked a change of mood, but in the Middle East the loudest voices may not yet have been heard.

Index | Books & Arts

Fiction in the Arab world

Dance of freedom

The International Prize for Arabic Fiction makes a mark

ARAB writers picked for the Qaddafi or Mubarak prizes in literature have faced an awkward test of conscience, and the scorn of their peers if they take the bait. To their credit, some have refused. The International Prize for Arabic Fiction (IPAF) offers garlands without guilt. Now in its fourth year, the "Arabic Booker", awarded for the year's best novel in that language, is an open race in what is too often a swamp of state patronage.

With cash and a hands-off pledge from the Emirates Foundation for Philanthropy in Abu Dhabi and know-how provided by the Booker Prize Foundation, IPAF is the Arab world's most talked-about literary prize. It has acquired greater prestige than the more ceremonial and more lucrative Sheikh Zayed book award, which gained some notoriety last year. The $200,000 prize in the literature category was subsequently withdrawn for plagiarism-of a book by one of the judges.

At this year's IPAF prizegiving in Abu Dhabi on March 14th every mention of the Arab "storm" raised rebellious applause, which may have startled the sponsors. As the UAE joined Saudi troops to crush protests in Bahrain, Fadhil al-Azzawi, an Iraqi poet and chair of the judges, praised a shortlist that chimed with the freedom chants on the streets. Facebook was a medium, but the message came from thousands of Arab writers toiling "to liberate Arabs from their chains", he said.

The $50,000 prize was split between two winners. "The Arch and the Butterfly" by Mohammed Achaari of Morocco dissects a corrupt society that has failed its young, as a father learns his son has died as an al-Qaeda suicide-bomber. For Mr Achaari, a writer who was jailed and later became culture minister, only democracy can defeat extremism. "The Doves' Necklace" by Raja Alem of Saudi Arabia-the first woman winner-is a daring, Sufi- inspired portrait of a holy Mecca that is destroyed for profit by a real-estate mafia.

Mr Achaari's novel will be published in English next year. Bloomsbury Qatar Foundation Publishing, a British joint venture in Doha, signed him from the shortlist. The inaugural winner, Bahaa Taher's "Sunset Oasis", a 19th-century tale born of despair at Mubarak's Egypt, was published by Sceptre in Britain in 2009. Two more winners are due out in English in 2012.

Arabic publishers say the prize inspires reading. Yet not everyone is thrilled. Ms Alem's novel is officially "unavailable" at home, not having been passed by the Saudi censor. Her publisher is confident it would be refused. Readers buy under the counter, on the internet, at book fairs or abroad. Sales of "Spewing Sparks as Big as Castles" shot up after the Saudi author, Abdo Khal, won last year. His novel was passed by the censor soon after he won the prize, but his publisher was then refused entry to this month's commercially important Riyadh book fair-spurring the author to call for a boycott. Khalid al-Maaly, an Iraqi poet and publisher in Beirut, believes he is being penalised for Mr Khal's bumper sales: "They see what's popular and think it must be subversive."

If awards risk triggering censorship, not everyone is dismayed. Bassam Kurdi, publisher of the joint winners, is sure that if Ms Alem's novel were banned at home, it would still find its way to readers: "Even those making the rules aren't very convinced by them. They often want to open the doors." Whether those doors remain shut depends on politics not prizes-and how far the storm spreads.

Libyan memories

Land of my father

Hisham Matar mines a family story

Anatomy of a Disappearance. By Hisham Matar. *Viking; 246 pages; pound16.99. To be published in America by the Dial Press in August; $22.* Buy from Amazon.com, Amazon.co.uk



The one who was left behind

HISHAM MATAR'S Man Booker- shortlisted debut, "In the Country of Men" (2006), was a delicate portrayal of a nine-year-old boy growing up in 1970s Libya, in the shadow of "the Guide". Like the author, who grew up in Tripoli and Cairo, and now lives in London, the boy loses his dissident father to an unknown fate in Colonel Qaddafi's dungeons.

The brutal and ambiguous loss of a father is also at the heart of Mr Matar's second novel. Nuri el-Alfi's family fled to Cairo from an unnamed homeland stolen by a dictator. He looks back on his boyhood yearning for Mona, the Egyptian-English woman he and his widowed father met in Alexandria, who became his stepmother. The triangle is etched with a sense of doom, as the boy aged 12 vies with his father, Kamal, for the woman in her 20s. Nuri's Oedipal desire to banish the older man is seen through anguished hindsight, though it was Nuri who felt banished to boarding school. After his dissident father is abducted from the bed of a Swiss woman unknown to the family, Nuri's guilt grows "at having lost him, at not knowing how to find him or take his place. Every day I let my father down."

Set in Egypt, Geneva and the canals of London's Little Venice that were "not the Nile", the novel unearths family skeletons through subtle clues that are lost on the boy except in retrospect. His father had a gift for secrets, both in his love life and his cause. Nuri learns his aloofness hid a love so great that "he froze around you", and that most men spend a "lifetime trying to understand their fathers".

Submerged grief gives this fine novel the mythic inexorability of Greek tragedy. But its metaphors are concrete: a father's chair, "too big for me", reveals a son's fear of not measuring up. With limpid precision, the novel hints at how grief shapes identity, how childhood loss influences adult sexuality and how relationships mutate through absence. Mr Matar, who does not know the fate of his own father, a prominent Libyan dissident, who disappeared 21 years ago, flags the peculiar devastation wrought by despots on individual lives, since, as he knows to his cost, "you can't live outside history."

Index | Books & Arts

Modern Spain

Time's arrow

Cementing democracy in Spain

The Anatomy of a Moment: Thirty-five Minutes in History and Imagination. By Javier Cercas. *Bloomsbury; 403 pages; $18 and pound18.99.* Buy from Amazon.com, Amazon.co.uk



The minister of silly hats

ON FEBRUARY 23rd 1981 Antonio Tejero, a lieutenant-colonel of the Civil Guard, burst into a crowded session of Spain's parliament, the Cortes, with a force of 186 armed police. The takeover of the Cortes was the spearhead of a wider coup plot. In Valencia a general decreed martial law and sent tanks on to the streets. The armoured division, based near Madrid, joined the revolt. The aim was to overthrow Spain's fledgling democracy (Franco had died just six years earlier) and replace it with a regime in which the army would still play a tutelary role.

Because Lieut-Colonel Tejero, with his extravagant moustache and tricorne hat, firing his pistol at the ceiling of the Cortes, looks in the endlessly repeated television footage like a figure from a bad operetta, it would be easy to dismiss the conspiracy as a quixotic melodrama. Yet it came worryingly close to succeeding. Slumped in a post-dictatorial recession and the seemingly uncontrollable terrorist violence of the armed group ETA, most Spaniards reacted with indifference to the coup. It failed because King Juan Carlos, to whom many in the army looked for a lead, refused to back it. In doing so, the king correctly saw that the future of the newly restored monarchy was indissolubly tied to democracy.

In "Anatomy of a Moment", whose publication in English coincides with the 30th anniversary of what Spaniards call "23-F", Javier Cercas investigates how the coup attempt came about and how it unravelled. He does so largely through the prism of the only three people in the Cortes who disobeyed Lieut-Colonel Tejero's peremptory order to lie on the floor: Adolfo Suarez, the outgoing prime minister; General Manuel Gutierrez Mellado, the deputy prime minister and defence minister; and Santiago Carrillo, the veteran leader of the Spanish Communist Party. The three were divided by their past: Mr Suarez and Gutierrez Mellado were *franquistas* while Mr Carrillo had fought Franco in the civil war. But they were united by their commitment to turn Spain into a democracy.

Mr Cercas, one of Spain's best younger novelists, sees in their quiet defiance a crowning moment of Spanish history. In a conscious irony he chose to write this book as a work of non-fiction, to rescue both 23-F and the whole project of the transition to democracy from what he sees as a recent rewriting of its history. Though Mr Cercas does not name him, the chief rewriter is Spain's socialist prime minister, Jose Luis Rodriguez Zapatero, who was too young to have taken part in the transition and whose government has colluded with a new far-left myth that the transition was a "pact of forgetting", a negotiated fraud that left the crimes of the dictatorship unpunished and its power structure intact.

In Mr Cercas's view, to have insisted on "the absolute triumph of justice was to risk provoking the absolute defeat of liberty". With all its necessarily messy compromises, the transition gave birth to "a fairer, freer political system than any Spain had ever known in its history"-and one essentially similar to that of the Republic crushed by Franco in the civil war.

Such dilemmas are familiar in Latin America as it has moved from dictatorship to democracy. And they are now present in the Arab world. Mr Cercas has written a persuasive, brilliant and absorbing book that has more contemporary resonance than even he might have imagined.

Index | Books & Arts

The Great Depression

Blame game

Was legislation sponsored by two Republicans to blame?

Peddling Protectionism: Smoot-Hawley and the Great Depression. By Douglas Irwin. *Princeton University Press; 256 pages; $24.95 and pound16.95.* Buy from Amazon.com, Amazon.co.uk

WHEN Herbert Hoover signed the Tariff Act of 1930 into law, he could scarcely have imagined that it would live on in the public imagination eight decades later. Yet the Smoot-Hawley act, as that infamous piece of legislation has almost universally come to be known, remains a shorthand for a counter-productive, short-sighted piece of protectionist folly-even for some less than familiar with its details. In 2009, a Minnesota Republican, Michele Bachmann, spoke of the "Hoot-Smalley act," which "took a recession and blew it into a full-scale depression".

Does the brainchild of Reed Smoot and Willis Hawley (both Republicans, incidentally) really deserve its fearsome reputation as the begetter of the worst economic crisis in modern history? Douglas Irwin, an economic historian at Dartmouth College, seems to have tracked down everything the act's proponents and opponents said or wrote during its long and tortuous passage through Congress for his new book. But he wears his erudition lightly: his account of how the act came about is at once a thorough study and a breezy read. The often overblown rhetoric that Smoot-Hawley has inspired, seemingly from the start, also means that the book is often surprisingly amusing. (Denying that he was espousing local issues in asking for higher tariffs on potatoes, a Republican from a potato-growing state thundered that "the inadequately protected American potato is a nationwide issue.")

Mr Irwin's description of how an attempt to prop up America's agricultural sector metastasised into a law that raised nearly 1,000 import tariffs, mostly on manufacturing products, is fascinating. There was lobbying and mutual back-scratching aplenty. Protectionist arguments were advanced and dismissed with rhetoric that will seem familiar.

Familiar, too, is the politician's utter disdain for academic opinion and "theory". More than 1,000 economists signed a letter asking Hoover to veto the act, pointing out the undeniable futility of trying to protect farmers' incomes by raising duties on things they did not produce, and therefore had to buy. They were derided for being "cloistered in colleges", and as men who had "never earned a dollar by the sweat of their brow".

But Mr Irwin's accessible analysis makes quite clear that the act cannot be said to have caused the Great Depression. Monetary and financial factors were far more to blame. Industrial production and farm prices, which were falling before Smoot-Hawley came into force, continued on their downward path at a pace that was not discernibly different. These falling prices significantly worsened the impact of a tariff hike which was by no means the steepest in recent American history. Two-thirds of import rates were specified in dollars rather than as percentages. This meant that when prices fell, the pre-specified duty became a much larger fraction of the price. Imports were certainly affected: Mr Irwin reckons that total imports fell by around 5% because of the act itself. But eventually, it was falling demand due to the Depression which caused America's foreign trade to plummet. Between 1929 and 1932, American imports fell by 40%.

Exports collapsed even more dramatically, by 49%. This was at least partly the result of a whole host of measures taken by other countries after Smoot-Hawley that were designed to divert trade away from America. Canada, the country's biggest trading partner, began to trade much more with other British colonies and dominions. America's trading partners were particularly incensed by the poor timing of the new legislation: after all, their economies were already struggling. This explains the ferocity of the international response to the act, which far exceeded the reactions that had followed earlier American legislation, such as the Fordney-McCumber tariff of 1922, which had come at a time of booming trade. A number of European countries were particularly upset that America chose to raise tariffs just as they were attempting to negotiate a "tariff truce" through the newly formed League of Nations.

The act's reputation for vitiating international trade relations is thus well deserved. It was a useless piece of legislation. In the longer run, however, the fiasco of Smoot-Hawley may have helped remove American trade policy from Congress's control. The act's bad reputation may also have spurred the United States to try and negotiate bilateral reductions in trade barriers after the second world war. Mr Smoot, the "apostle of protection", would not have been pleased.

Index | Books & Arts

Physics and philosophy

In the beginning

A quantum physicists long awaited second book

The Beginning of Infinity: Explanations That Transform the World. By David Deutsch. *Allen Lane; 487 pages; pound25. To be published in America by Viking in July; $30.* Buy from Amazon.com, Amazon.co.uk



WHY is science so successful? In his long-awaited second book, David Deutsch, a quantum physicist at Oxford University, argues that the discipline provides good explanations, and that explanations hold a special status as fundamental descriptions of the world. A decent explanation has universal reach, he reckons, and the quest for explanations is what makes people human. Identifying good explanations constitutes progress (alas, quantum physics still lacks such an account). And because there is no particular limit to what can be explained, explanations are infinite.

In recent years a rift has developed between those people who think that science will end and those who believe that it still has a long way to run and may, anyway, be infinite. The demise of science has been predicted before (Lord Kelvin, a British physicist, is supposed to have been the first to suggest this more than a century ago). But the recent arguments have examined not only whether the discipline itself is limited-or, indeed, whether the explanation of everything so lusted after by scientists actually exists-but also whether the human mind is equipped to understand everything.

Mr Deutsch is firmly of the opinion that science is infinite, as is the human thirst for knowledge. He highlights how the culture of criticism found in science and elsewhere is vital for the development of good explanations through the correction of errors, and he identifies points in history when such traditions developed. (A chapter in which he imagines a dialogue that Socrates might have had with Hermes during a dream is both amusing and insightful.) He teases out what constitutes a good explanation: one that is hard to adapt to changing circumstances; that is often simple and elegant; and that explains apparently unrelated phenomena.

A chapter on the nature of infinity is illuminating and includes a charming description of the thought experiments conducted by David Hilbert, a mathematician who builds and populates the Infinity Hotel with its infinite number of rooms and guests (more keep arriving, but even when an infinitely long train arrives carrying infinitely more people who want to stay at the hotel, they are easily accommodated). This nicely links Mr Deutsch's ideas about explanations having infinite reach, which in turn suggests that mankind is only just at the beginning of an almost everlasting journey of creating explanations of the world.

Turning his intellectual searchlight on his own field, Mr Deutsch rails against the Copenhagen interpretation of quantum physics developed by Niels Bohr and others during the 1920s. The interpretation, which is the most popular explanation of

the bizarre quantum world among physicists, suggests that quantum mechanics does not describe the physical world directly but merely talks about probabilities of certain outcomes. Nonsense, says Mr Deutsch, how can mere potentialities affect actual outcomes? Those who question it are criticised for not understanding quantum mechanics. Piffle, he says, science must be questioned, and he promptly leads readers on a tour of what he calls "bad philosophy".

Mr Deutsch's previous tome, "The Fabric of Reality", took a broad-ranging sweep that encompassed evolution as well as knowledge, computation and physics, and earned him a fan base that has been eagerly awaiting his second publication. "The Beginning of Infinity" is equally bold, addressing subjects from artificial intelligence to the evolution of culture and of creativity; its conclusions are just as profound. Mr Deutsch argues that decent explanations inform moral philosophy, political philosophy and even aesthetics. He is provocative and persuasive. Who knows? Perhaps he is also right.

Index | Obituary

Warren Christopher

Warren Christopher, lawyer and secretary of state, died on March 18th, aged 85



WHEN Warren Christopher became Bill Clinton's first secretary of state, in January 1993, the world seemed relatively quiet. Three years before, the cold war had been declared over. The Middle East chuntered on, of course, and the Balkans smouldered. But, those apart, it seemed a time when America could ignore foreign wars in favour of building trade deals and perking up growth at home. The only conflict facing Mr Christopher was the daily tussle with the National Security Council and the Pentagon for the president's ear, or the annual struggle to wring more money for the State Department out of Congress. It seemed to be a job a lawyer could do.

And a lawyer was what he was. Whenever America needed him he was plucked from the glassy corridors of O'Melveny & Myers, the most venerable international law firm in Los Angeles, and set down in Jerusalem, or Belgrade, or Beijing, with his solemnity and tailoring undamaged. In the shambolic early weeks of the Clinton administration he was a reassuring figure, older, tidier and palpably wiser than the cocky young baby-boomers then overrunning the White House.

He had come up through the attorney-general's office under Lyndon Johnson, where his tenacity had recommended him: a dogged, uncomplaining appetite for tedious sorts of work. The heavy eyelids often seemed to sink, lizard-like, over the eyes as Mr Christopher sat at the diplomatic table for the umpteenth time. But doggedness could bring success. For months in 1980, as Jimmy Carter's deputy secretary of state, he had negotiated the release of 52 Americans held hostage in Iran. The Pentagon sent rescue helicopters that crashed in flames in the desert. But Mr Christopher took the patient route, struggling back and forth to Algeria to talk to "bazaar" Iranians until he closed the deal.

For Mr Clinton he did the same, acquiring thousands of air miles and several ulcers to negotiate new trade structures-NAFTA, APEC, GATT-and to exercise his mediation skills on quarrellers abroad. The Oslo accords between Israel and the Palestinians, the 1995 Dayton accords that ended the Bosnian war, NATO's Partnership for Peace, all came on his watch. He took little credit for them, shrinking away from "the concept of pride" to seek the shade. In Bosnia, where Richard Holbrooke as chief negotiator was all explosions, bullying and chaotic charm, Mr Christopher remained the man in the perfect suit, ever the hired help from O'Melveny & Myers, to which he would quietly return as "Chris" each time his stint at Foggy Bottom was over.

His word for his role was "steward". Unassumingly, he often wondered why he had been asked to do it. Those who liked their foreign policy with a strong dash of vision and passion wondered, too. They condemned him as drifting and uninspiring. Within a year of his appointment to State, *The Economist* was wishing he would go; "Plodding, nodding" moaned Lexington three years later. But there was steel inside him, which showed to better effect at home. He pressed for Al Gore as Mr Clinton's running-mate, a shrewd choice. And after the Rodney King riots in Los Angeles in 1992 he firmly took on Daryl Gates and the whole city police department, forcing reforms on them.

The rough and the smooth

Unlike most of the Clintonistas he had seen war up close, observing the desperate, aimless crowds in ruined Japan as a naval ensign in 1945. He concluded that talking to the other side, no matter how slow, was "the only way". Sprawling sores like the meltdown in Somalia or the conflict in Rwanda were to be scrupulously avoided, and Bosnia tiptoed round for months with pettifogging excuses. On the other hand, he approved of the "careful" use of force if necessary. Eventually he and Holbrooke took the lead on Bosnia, demanding air strikes to protect the Bosnian Muslims while Europe demurred. And after Iraqi intelligence agents tried to kill George Bush senior in Kuwait in 1993 Mr Christopher endorsed missile strikes on their headquarters, an eerie precursor of later wars.

He cried when the hostages came out of Iran, a rare moment of open emotion. Their release, moving in itself, had also come too late to save Mr Carter's presidency. Two decades later he failed to save another, when he organised Mr Gore's challenge to George Bush junior after the 2000 election. Mr Christopher was a confirmed Democrat, his convictions formed in rural North Dakota in the Depression as he watched his father deal with farmers' foreclosures. Yet he liked to be liberal "in a conservative way". In the aftermath of race riots in Detroit and Los Angeles in the 1960s and later he gave voice to radical pleas-for jobs, education, compassion-in the calm, unexcitable tones of a bureaucrat.

This was one of several paradoxes about him. He was a dour North Dakotan, but considered himself a Californian; he jogged, and had a beach house in Santa Barbara, but was also given a Theodore Roosevelt Rough Rider award by North Dakota's governor. Few men looked less like a Rough Rider than Mr Christopher as he clasped his prize, his handkerchief neatly in his top pocket. Few men so symbolised an era of cautious negotiation, rather than bold intervention. But perhaps few, with such a taste for plodding, got further.
